

Historic, Archive Document

Do not assume content reflects current scientific knowledge, policies, or practices.

LEGISLATIVE HISTORY

Public Law 183--82nd Congress

Chapter 521--1st Session

H. R. 4473

TABLE OF CONTENTS

Digest of Public Law 183	1
Index and Summary of H. R. 4473	2

REVENUE ACT OF 1951. H. R. 4473, which makes various changes in the tax laws, some of which are as follows:

Increases the individual income-tax rates (the combined normal tax and sur-tax) by approximately 11 3/4 percent, effective November 1, 1951 and terminating on January 1, 1954. The increase in the lowest tax bracket, however, is only 11 percent. The withholding rate is increased from 18% to 20%.

Increases the normal corporate taxes from 25% to 30%, effective April 1, 1951, but there is no increase in the 22percent surtax rate or the 30 percent excess profits tax rate. The ceiling on corporate taxes is 70%.

Makes tax-exempt cooperatives subject, in general, to normal tax and sur-tax on earnings not definitely allocated to the accounts of patrons beginning after December 31, 1951. The amendment provides that there shall be allowed as deductions from a cooperatives gross income "(i) amounts paid as dividends during the taxable year upon its capital stock, and (ii) amounts allocated during the taxable year to patrons with respect to its income not derived from patronage (whether or not such income was derived during such taxable year) whether paid in cash, merchandise, capital stock, revolving fund certificates, retain certificates, certificates of indebtedness, letters of advice, or in some other manner that discloses to each patron the dollar amount allocated to him. Allocations made after the close of the taxable year and on or before the fifteenth day of the ninth month following the close of such year shall be considered as made on the last day of such taxable year to the extent the allocations are attributable to income derived before the close of such year." Provides also that patronage dividends, refunds, and rebates to patrons with respect to their patronage in the same or preceding years (whether paid in cash or otherwise) shall be taken into account in computing net income in the same manner as in the case of a cooperative organization not exempt. Corporations allocating amounts as patronage dividends, rebates, or refunds are required to render returns stating the name, address, and amount with regard to allocations amounting to \$100 or more, and the Secretary of the Treasury could require returns showing all such refunds. This last provision, however, would not apply to "any corporation (including any cooperative or nonprofit corporation engaged in rural electrification) exempt from taxation under section 101 (10) or (11) of the Internal Revenue Code."

Provides that if a taxpayer sells his principal residence after December 31, 1950, and purchases a new one within a period of one year prior to the sale of the old residence or one year after such sale, the gain (if any) from such sale shall be recognized only to the extent that the taxpayer's selling price of the old residence exceeds the taxpayer's cost of purchasing the new residence. In such a case, however, the tax basis of the gain not recognized upon the sale of the old residence. Where the taxpayer is constructing a new residence, the period would be 18 rather than 12 months after the sale of the old.

Where an unharvested crop is sold with the land, after December 31, 1950, the value received may be treated as a gain from the sale of a capital asset rather than as income. The same principal applies to the sale of "livestock, regardless of age, held by the taxpayer for draft, breeding, or dairy purposes, and held by him for 12 months or more from the date of acquisition." Poultry is not included.

March 5, 1951

Provides, beginning after December 31, 1951, that income from the "unrelated" businesses of governmental colleges and universities, and corporations wholly owned by such colleges or universities, shall be subject to corporation taxes.

Provides that admissions to agricultural fairs, if used for the improvement, maintenance, and operation of such fairs, are exempt from taxation, effective November 1, 1951. Admissions are also exempt where the proceeds inure to certain religious, educational, and charitable institutions.

Provides for increases in excise taxes on various items effective November 1, 1951 and until April 1, 1954., including:

June 20, 1951

Cigaretts, from \$3.50 to \$4.00 per thousand.

Liquor, from \$9.00 to \$10.50 per gallon

June 21,

Wines, various increases

Beer, from \$8.00 to \$9.00 per barrel

June 22,

Trucks, from 5% to 8%

Automobiles, from 7% to 10%

Gasoline, from $1\frac{1}{2}\text{¢}$ to 2¢ per gallon.

June 23, 1951

A tax of 2 cents per gallon is imposed on diesel fuel for use in a diesel-powered highway vehicle. After April 1, 1954, the tax will be $1\frac{1}{2}\text{¢}$ per gallon.

The tax on snuff, and chewing and smoking tobacco, is reduced from 18¢ to 10¢ per pound.

July 23, 1951

Effective November 1, 1951, the tax on electrical energy for domestic or commercial consumption is repealed.

August 29, 1951

Approved tax on "taxable corporations".

August 30, 1951

Committee on Finance notified consolidation of H. R. 4473.

August 31, 1951

Senate committee on Finance took various actions.

September 10, 1951

Committee agreed on various changes. Changed cooperative tax

September 11, 1951

Committee completed work-up of H. R. 4473

September 12, 1951

Senate reported H. R. 4473 with amendments. Senate Report 731. Print of bill as revised.

INDEX AND SUMMARY ON H. R. 4473

February 5, 1951	Hearings: House, Part 1 (H Wa) H. R. 4473
February 20, 1951	Hearings: House Part 2
March 5, 1951	Hearings: House, Part 3.
June 15, 1951	Mr. Doughton introduced H. R. 4473; which was referred to the Committee on Ways and Means. Print of the bill as introduced.
June 18, 1951	House reported H. R. 4473 without amendments. House Report 586. Print of bill as reported.
June 19, 1951	Reported H. Res. 262 for consideration of H. R. 4473. (House Report 629) Print of resolution as reported.
June 20, 1951	Agreed to resolution H. Res. 262 for consideration of H. R. 4473
June 21, 1951	House began debate
June 22, 1951	House Concluded debate on H. R. 4473, passed bill with clarifying amendments.
June 25, 1951	Read twice in the Senate and referred to Committee on Finance. Print of bill as referred.
June 28, 1951	Hearings: Senate, Part 1
July 5, 1951	Hearings: Senate, Part 2
July 23, 1951	Hearings: Senate, Part 3
August 27, 1951	Senate committee agreed to provisions regarding tax rate on corporations.
August 29, 1951	Approved tax on "taxable Cooperatives".
August 30, 1951	Committee on Finance continued consideration of H. R. 4473.
August 31, 1951	Senate committee on Finance took various actions.
September 10, 1951	Committee agreed on various changes. Changed Cooperative tax
September 11, 1951	Committee completed mark-up of H. R. 4473
September 18, 1951	Senate reported H. R. 4473 with amendments. Senate Report 781. Print of bill as reported.

September 19, 1951	Senate began debate
September 20, 1951	Debate continued
September 21, 1951	Senate continued debate of H. R. 4473
September 22, 1951	Continued debate
September 24, 1951	Debate continued
September 25, 1951	Continued debate
September 26, 1951	Senate continued debate
September 27, 1951	Continued debate
September 28, 1951	Senate concluded debate and passed H. R. 4473 with amendments. Print of the bill with the amendments of the Senate numbered.
September, 28, 1951	Senate conferees appointed.
October 1, 1951	House conferees appointed.
October 11, 1951	Conferees reached agreement but did not file report
October 15, 1951	House received conference report. Print of Conference Report. House Report 1179.
October 16, 1951	House rejected conference report.
	House conferees appointed for further conference
October 17, 1951	Senate conferees appointed for a further conference.
October 18, 1951	Senate adopted 2nd conference report. Print of Conference Report. House Report 1213.
	House received revised Conference report.
October 19, 1951	House agreed to second conference report.
October 20, 1951	Approved: Public Law 183.

H. R. 4473

A BILL

82^d CONGRESS
1ST SESSION

H. R. 4473

IN THE HOUSE OF REPRESENTATIVES

JUNE 15, 1951

Mr. DOUGHTON introduced the following bill; which was referred to the Committee on Ways and Means

A BILL

To provide revenue, and for other purposes.

- 1 *Be it enacted by the Senate and House of Representa-*
2 *tives of the United States of America in Congress assembled,*
3 That (a) SHORT TITLE.—This Act, divided into titles and
4 sections according to the following table of contents, may
5 be cited as the “Revenue Act of 1951”:

TABLE OF CONTENTS

TITLE I—INCREASE IN INCOME TAX RATES

PART I—INDIVIDUAL INCOME TAXES

Sec. 101. Defense tax.

- (a) Increase in rate of tax.
- (b) Amendment of section 12 (b).
- (c) Limitation on tax.
- (d) Technical amendments.

Sec. 102. Individuals with adjusted gross income of less than \$5,000.

Sec. 103. Computation of tax in case of certain joint returns.

Sec. 104. Effective date of part I.

TABLE OF CONTENTS—Continued

TITLE I—INCREASE IN INCOME TAX RATE—Continued

PART II—CORPORATION INCOME TAXES

- Sec. 121. Increase in rate of corporation normal tax.
 - (a) Amendment of section 13.
 - (b) Maximum tax.
 - (c) Mutual insurance companies other than life or marine.
 - (d) Regulated investment companies.
 - (e) Business income of certain section 101 organizations.
 - (f) Technical amendments.
- Sec. 122. Credits of corporations.
 - (a) Dividends received credit.
 - (b) Credit for dividends paid on certain preferred stock.
 - (c) Western Hemisphere trade corporations.
- Sec. 123. Surtax exemptions and certain credits of related corporations.
 - (a) Limitation on surtax exemption in the case of related corporations.
 - (b) Insurance companies.
 - (c) Minimum excess profits credit.
- Sec. 124. Computation of alternative capital gains tax.
 - (a) Alternative tax.
 - (b) Effective date.
- Sec. 125. Effective date.

PART III—FISCAL YEAR TAXPAYERS

- Sec. 131. Fiscal year taxpayers.
 - (a) Amendment of section 108.
 - (b) Computation of excess profits tax.
 - (c) Technical amendments.

TITLE II—WITHHOLDING OF TAX AT SOURCE

PART I—WITHHOLDING OF TAX AT SOURCE ON DIVIDENDS, INTEREST,
AND ROYALTIES

- Sec. 201. Collection of income tax at source on dividends, interest, and royalties.
- Sec. 202. Credit for tax withheld.
- Sec. 203. Credits in case of organizations exempt from tax.
- Sec. 204. Technical amendments.
 - (a) Tax computed by collector.
 - (b) Requirement of declaration of estimated tax.
 - (c) Credit under section 143.
 - (d) Credit under section 144.
 - (e) Information at source.
 - (f) Information by corporations.
 - (g) Clerical amendment.
 - (h) Amount of credit considered as payment.
 - (i) Special period of limitations for small refunds on tax withheld at source.
 - (j) Presumptions as to date of payment.
 - (k) Interest on overpayments.
 - (l) Definition of withholding agent.
 - (m) Effective date.

TABLE OF CONTENTS—Continued

TITLE II—WITHHOLDING OF TAX AT SOURCE—Continued

PART II—INCREASE IN WITHHOLDING OF TAX AT SOURCE ON WAGES

- Sec. 221. Percentage method of withholding.
- Sec. 222. Wage bracket withholding.
- Sec. 223. Additional withholding of tax on wages upon agreement by employer and employee.
- Sec. 224. Effective date.

TITLE III—MISCELLANEOUS INCOME TAX AMENDMENTS

- Sec. 301. Tax treatment in case of head of household.
 - (a) Surtax in case of head of household.
 - (b) Effective date.
- Sec. 302. Expenditures in the development of mines.
 - (a) Deduction of expenditures.
 - (b) Adjusted basis for determining gain or loss upon sale or exchange.
 - (c) Technical amendment.
 - (d) Effective date.
- Sec. 303. Gain from sale or exchange of taxpayer's residence.
 - (a) Nonrecognition of gain in certain cases.
 - (b) Technical amendments.
 - (c) Effective date.
- Sec. 304. Percentage depletion.
 - (a) Allowance of percentage depletion.
 - (b) Technical amendment.
 - (c) Effective date.
- Sec. 305. Capital gains and losses.
 - (a) Treatment of long-term capital gains and losses.
 - (b) Alternative tax.
 - (c) Technical amendments.
 - (d) Effective date.
- Sec. 306. Sales of livestock.
- Sec. 307. Tax treatment of coal royalties.
 - (a) Definition of property used in the trade or business.
 - (b) Gain or loss upon certain disposals of timber or coal.
 - (c) Clerical amendment.
 - (d) Effective date.
- Sec. 308. Collapsible corporations.
 - (a) Definitions with respect to collapsible corporations.
 - (b) Limitations on application of section 117 (m).
 - (c) Effective date.
- Sec. 309. Dealers in securities—capital gains and ordinary losses.
- Sec. 310. Treatment of gain on sales of certain property between spouses and between an individual and a controlled corporation.
 - (a) Disallowance of capital gain treatment.
 - (b) Effective date.
- Sec. 311. Life insurance companies.
 - (a) Reserve and other policy liability credit for 1951.
 - (b) Effective date.

TABLE OF CONTENTS—Continued

TITLE III—MISCELLANEOUS INCOME TAX AMENDMENTS—Continued

- Sec. 312. Tax treatment of certain investment companies.
- (a) Inclusion of certain registered management companies in the definition of regulated investment company.
 - (b) Technical amendment.
 - (c) Effective date.
- Sec. 313. Family partnerships.
- (a) Definition of partner.
 - (b) Allocation of partnership income.
 - (c) Effective date.

TITLE IV—EXCISE TAXES

PART I—TAX ON ADMISSIONS AND CABARETS

- Sec. 401. Removal of tax on free admissions.
- Sec. 402. Exemptions from admissions tax.
- (a) Reinstatement of prewar exemptions.
 - (b) Amendment of section 1701 (a).
 - (c) Admissions to municipal swimming pools, etc.
- Sec. 403. Effective date of amendments relating to admissions.
- Sec. 404. Tax on cabarets, roof gardens, etc.
- (a) Ballrooms and dance halls.
 - (b) Effective date.

PART II—TAX ON CIGARETTES

- Sec. 421. Tax on cigarettes.
- (a) Increase in rate.
 - (b) Effective date.
- Sec. 422. Floor stocks tax on cigarettes.

PART III—RETAILERS' EXCISE TAXES

- Sec. 431. Tax on lighters.
- Sec. 432. Retailers' excise tax on toilet preparations.
- (a) Baby oils, etc.
 - (b) Sales to barber shops, etc.
- Sec. 433. Effective date of part III.

PART IV—DIESEL FUEL

- Sec. 441. Diesel fuel used in highway vehicles.
- (a) Imposition of tax.
 - (b) Effective date.

PART V—LIQUOR

- Sec. 451. Increase in tax on distilled spirits from \$9 to \$10.50 per gallon.
- (a) Distilled spirits generally.
 - (b) Imported perfumes containing distilled spirits.
 - (c) Floor stocks tax.
- Sec. 452. Wines.
- (a) Increase in rate of tax.
 - (b) Floor stocks.

TABLE OF CONTENTS—Continued

TITLE IV—EXCISE TAXES—Continued

PART V—LIQUOR—continued

- Sec. 453. Fermented malt liquor.
 - (a) Increase in tax on fermented malt liquors from \$8 to \$9 per barrel.
 - (b) Floor stocks tax.
- Sec. 454. Clerical amendment.
- Sec. 455. Effective date of part V.

PART VI—OCCUPATIONAL TAXES

- Sec. 461. Dealers in liquors.
 - (a) Wholesale dealers in liquors.
 - (b) Retail dealers in liquors.
 - (c) Wholesale dealers in malt liquors.
- Sec. 462. Drawback in the case of distilled spirits used in the manufacture of certain nonbeverage products.
 - (a) Drawback.
 - (b) Effective date.
 - (c) Technical amendment.
- Sec. 463. Tax on coin-operated gaming devices.
- Sec. 464. Tax on bowling alleys and billiard and pool tables.
 - (a) Increase in rate.
 - (b) Clerical amendment.
- Sec. 465. Effective date of part VI.

PART VII—WAGERING

- Sec. 471. Wagering taxes.
 - (a) Imposition of taxes.
 - (b) Technical amendment.
- Sec. 472. Effective date of part VII.

PART VIII—MANUFACTURERS' EXCISE TAXES

- Sec. 481. Automobiles, trucks, and parts or accessories.
 - (a) Increase in tax on trucks.
 - (b) Increase in tax on passenger automobiles and motorcycles.
 - (c) Increase in tax on parts or accessories.
 - (d) Rebuilt parts or accessories.
 - (e) Technical amendment.
 - (f) Parts or accessories for farm equipment.
 - (g) Effective date of subsection (f).
 - (h) Removal of tax on tires for toys, etc.
- Sec. 482. Navigation receivers sold to the United States.
 - (a) Exemption on sales to United States of certain radio sets.
 - (b) Tax-free sales of radio parts.
 - (c) Refund in case of use of parts.
 - (d) Refund in case of resale to United States.
 - (e) Use by manufacturer of taxable parts.
 - (f) Effective dates.

TABLE OF CONTENTS—Continued

TITLE IV—EXCISE TAXES--Continued

PART VIII—MANUFACTURERS' EXCISE TAXES—continued

- Sec. 483. Repeal of tax on certain sporting goods; increase in tax on remaining sporting goods.
- Sec. 484. Addition of certain items to the tax on electric, gas, and oil appliances; removal of tax on electric heating pads.
- Sec. 485. Adjustments of tax rates on photographic apparatus and film; repeal of tax on certain items.
 - (a) Items subject to tax.
 - (b) Floor stocks refunds on bulbs.
- Sec. 486. Imposition of tax on mechanical pencils and fountain and ball point pens.
- Sec. 487. Repeal of tax on electrical energy.
 - (a) Repeal of tax.
 - (b) Effective date.
- Sec. 488. Tax on gasoline.
 - (a) Increase in rate.
 - (b) Floor stocks tax.
- Sec. 489. Effective date of part VIII.

PART IX—MISCELLANEOUS EXCISE TAX AMENDMENTS

- Sec. 491. Reduction of tax on telegraph dispatches.
 - (a) Reduction of tax.
 - (b) Clerical amendment.
 - (c) Effective date.
 - (d) Amounts paid pursuant to bills rendered.
 - (e) Rate reduction date.
- Sec. 492. Exemption of fishing trips from tax on transportation.
 - (a) Exemption.
 - (b) Effective date.
- Sec. 493. Transportation of oil by water.
 - (a) Imposition of tax.
 - (b) Technical amendment.
 - (c) Effective date.
- Sec. 494. Articles from foreign trade zones.
 - (a) Imported articles.
 - (b) Previously taxpaid articles.

TITLE V—MISCELLANEOUS PROVISIONS AND AMENDMENTS

- Sec. 501. Exemption of certain organizations from income tax for prior taxable years.
- Sec. 502. Excess profits credit based on income.
 - (a) Percentage of average base period net income taken into account.
 - (b) Effective date.
- Sec. 503. Estate and gift tax treatment of United States bonds held by certain nonresident aliens.
 - (a) Estate tax.
 - (b) Gift tax.
- Sec. 504. Reorganization Plan Numbered 26 of 1950.

1 (b) ACT AMENDATORY OF INTERNAL REVENUE
 2 CODE.—Except as otherwise expressly provided, wherever
 3 in this Act an amendment or repeal is expressed in terms of
 4 an amendment to or repeal of a chapter, subchapter, title,
 5 supplement, section, subsection, subdivision, paragraph, sub-
 6 paragraph, or clause, the reference shall be considered to be
 7 made to a provision of the Internal Revenue Code.

8 (c) MEANING OF TERMS USED.—Except as otherwise
 9 expressly provided, terms used in this Act shall have the
 10 same meaning as when used in the Internal Revenue Code.

11 **TITLE I—INCREASE IN INCOME TAX RATES**

12 **PART I—INDIVIDUAL INCOME TAXES**

13 **SEC. 101. DEFENSE TAX.**

14 (a) INCREASE IN RATE OF TAX.—Part I of subchapter
 15 B of chapter 1 is hereby amended by adding at the end
 16 thereof the following new section:

17 **“SEC. 16. DEFENSE TAX.**

18 “(a) INDIVIDUALS—CALENDAR YEAR 1951.—In the
 19 case of a taxable year beginning on January 1, 1951, and
 20 ending on December 31, 1951, the amount of the combined
 21 normal tax and surtax under sections 11 and 12, and the
 22 amount of the combined normal tax and surtax under section
 23 421 (a) (2), shall be the amount of such combined tax
 24 computed without regard to this section, increased by 4 per
 25 centum.

1 “(b) INDIVIDUALS—TAXABLE YEARS BEGINNING
2 AFTER AUGUST 31, 1951.—In the case of taxable years
3 beginning after August 31, 1951, the amount of the com-
4 bined normal tax and surtax under sections 11 and 12, and
5 the amount of the combined normal tax and surtax under
6 section 421 (a) (2), shall be the amount of such combined
7 tax computed without regard to this section, increased by
8 $12\frac{1}{2}$ per centum.

9 “(c) ALTERNATIVE CAPITAL GAINS TAX.—

10 “(1) CALENDAR YEAR 1951.—In computing an
11 alternative tax under paragraph (1) or (2) of section
12 117 (c) for a taxable year beginning on January 1,
13 1951, and ending on December 31, 1951, the amount to
14 be added to the partial tax under such paragraph shall
15 be increased by 4 per centum.

16 “(2) TAXABLE YEARS BEGINNING AFTER AUGUST
17 31, 1951.—In computing an alternative tax under para-
18 graph (1) or (2) of section 117 (c) for a taxable
19 year beginning after August 31, 1951, the amount to be
20 added to the partial tax under such paragraph shall be
21 increased by $12\frac{1}{2}$ per centum.

22 “(3) TAXABLE YEARS BEGINNING BEFORE SEP-
23 TEMBER 1, 1951, AND ENDING AFTER AUGUST 31,
24 1951.—In computing an alternative tax under paragraph
25 (1) or (2) of section 117 (c) for a taxable year (other

1 than one beginning on January 1, 1951, and ending on
2 December 31, 1951) beginning before September 1,
3 1951, and ending after August 31, 1951, the amount
4 to be added to the partial tax under such paragraph shall
5 be increased by a percentage which bears the same
6 ratio to $12\frac{1}{2}$ per centum as the number of months in
7 such taxable year after August 31, 1951, bears to the
8 total number of calendar months in such taxable year.

9 For the purposes of this paragraph, a calendar month
10 only part of which falls within a taxable year (A)
11 shall be disregarded if less than 15 days of such month
12 are included in such taxable year, and (B) shall be
13 included as a calendar month within the taxable year
14 if more than 14 days of such month fall within the tax-
15 able year.”

16 (b) AMENDMENT OF SECTION 12 (b).—Section 12
17 (b) (relating to rates of surtax) is hereby amended by
18 striking out paragraph (2) and inserting in lieu thereof
19 the following:

20 “In the case of a head of a household, the tax imposed
21 by this subsection shall not apply to any taxable year
22 beginning after August 31, 1951. In the case of an
23 individual whose surtax net income for the taxable year
24 is over \$90,000, the tax imposed by this paragraph

1 shall not apply if the defense tax provided in section 16
2 is applicable to such taxable year.

3 “(2) SURTAX NET INCOME OVER \$90,000—CAL-
4 ENDAR YEAR 1951.—In the case of a taxable year
5 beginning on January 1, 1951, and ending on December
6 31, 1951, if the surtax net income of the individual
7 is over \$90,000, there shall be levied, collected, and
8 paid for such taxable year upon the surtax net income
9 of such individual the surtax shown in the following
10 table:

If the surtax net income is:	The surtax shall be:
Over \$90,000 but not over \$100,000—	\$55,920 plus 83% of excess over \$90,000.
Over \$100,000 but not over \$150,000.	\$64,220 plus 84% of excess over \$100,000.
Over \$150,000 but not over \$200,000.	\$106,220 plus 85% of excess over \$150,000.
Over \$200,000-----	\$148,720 plus 86% of excess over \$200,000.

11 “(3) SURTAX NET INCOME OVER \$90,000—TAX-
12 ABLE YEARS BEGINNING AFTER AUGUST 31, 1951.—
13 In the case of a taxable year beginning after August 31,
14 1951, to which the defense tax provided by section 16
15 is applicable, if the surtax net income of the individual for
16 the taxable year is over \$90,000, there shall be levied,
17 collected, and paid for such taxable year upon the
18 surtax net income of such individual a surtax of \$55,920
19 plus 81 per centum of the excess over \$90,000.”

1 (c) LIMITATION ON TAX.—Section 12 (f) (relating to
2 limitation on tax) is hereby amended to read as follows:

3 “(f) LIMITATION ON TAX.—

4 “(1) TAXABLE YEARS TO WHICH DEFENSE TAX
5 DOES NOT APPLY.—In the case of a taxable year be-
6 ginning after September 30, 1950, other than a taxable
7 year to which paragraph (2) or (3) is applicable, the
8 combined normal tax and surtax shall in no event ex-
9 ceed 87 per centum of the net income for the taxable
10 year.

11 “(2) CALENDAR YEAR 1951.—In the case of a
12 taxable year beginning on January 1, 1951, and end-
13 ing December 31, 1951, the combined normal tax and
14 surtax, increased as provided in section 16, shall in no
15 event exceed 88 per centum of the net income for the
16 taxable year.

17 “(3) OTHER TAXABLE YEARS TO WHICH DEFENSE
18 TAX APPLIES.—In the case of a taxable year beginning
19 after August 31, 1951, to which the defense tax provided
20 in section 16 is applicable, the combined normal tax
21 and surtax, increased as provided in section 16, shall in
22 no event exceed 90 per centum of the net income for
23 the taxable year.”

1 (d) TECHNICAL AMENDMENTS.—

2 (1) Section 11 (a) (relating to normal tax on
3 individuals) is hereby amended by adding at the end
4 thereof the following new sentence: “For percentage
5 increase in the amount of tax for the calendar year 1951
6 and for taxable years beginning after August 31, 1951,
7 see section 16.”

8 (2) Section 12 (g) (cross references) is hereby
9 amended by adding at the end thereof the following:

10 “(7) DEFENSE TAX.—For percentage increase in
11 the amount of tax for the calendar year 1951 and for
12 taxable years beginning after August 31, 1951, see sec-
13 tion 16.

14 “(8) COMPUTATION OF TAX FOR CERTAIN FISCAL
15 YEARS.—For computation of tax in the case of taxable
16 years (other than the calendar year 1951) beginning
17 before September 1, 1951, and ending after August 31,
18 1951, see section 108 (h).”

19 **SEC. 102. INDIVIDUALS WITH ADJUSTED GROSS INCOME**
20 **OF LESS THAN \$5,000.**

21 Section 400 (relating to optional tax on individuals
22 with adjusted gross incomes of less than \$5,000) is hereby
23 amended by striking out the tables contained therein and
24 inserting in lieu thereof the following:

"Table I

"Taxable year beginning January 1, 1951, and ending
December 31, 1951

If adjusted gross income is—		And the number of exemptions is—				If adjusted gross income is—		And the number of exemptions is—									
At least	But less than	1	2	3	4 or more	At least	But less than	1	2		3		4	5	6	7	8 or more
									And if other than a joint return is filed	And if a joint return is filed	And if other than a joint return is filed	And if a joint return is filed					
The income and defense tax shall be—						The income and defense tax shall be—											
\$0	\$675	\$0	\$0	\$0	\$0	\$2,325	\$2,350	\$313	\$188	\$188	\$63	\$63	\$0	\$0	\$0	\$0	\$0
675	700	4	0	0	0	2,350	2,375	317	193	193	68	68	0	0	0	0	0
700	725	9	0	0	0	2,375	2,400	322	197	197	73	73	0	0	0	0	0
725	750	13	0	0	0	2,400	2,425	327	202	202	77	77	0	0	0	0	0
750	775	18	0	0	0	2,425	2,450	332	207	207	82	82	0	0	0	0	0
775	800	23	0	0	0	2,450	2,475	336	211	211	87	87	0	0	0	0	0
800	825	27	0	0	0	2,475	2,500	341	216	216	91	91	0	0	0	0	0
825	850	32	0	0	0	2,500	2,525	346	221	221	96	96	0	0	0	0	0
850	875	37	0	0	0	2,525	2,550	350	225	225	101	101	0	0	0	0	0
875	900	41	0	0	0	2,550	2,575	355	230	230	105	105	0	0	0	0	0
900	925	46	0	0	0	2,575	2,600	360	235	235	110	110	0	0	0	0	0
925	950	51	0	0	0	2,600	2,625	364	239	239	115	115	0	0	0	0	0
950	975	55	0	0	0	2,625	2,650	369	244	244	119	119	0	0	0	0	0
975	1,000	60	0	0	0	2,650	2,675	374	249	249	124	124	0	0	0	0	0
1,000	1,025	65	0	0	0	2,675	2,700	378	254	254	129	129	4	0	0	0	0
1,025	1,050	69	0	0	0	2,700	2,725	383	258	258	133	133	9	0	0	0	0
1,050	1,075	74	0	0	0	2,725	2,750	388	263	263	138	138	13	0	0	0	0
1,075	1,100	79	0	0	0	2,750	2,775	392	268	268	143	143	18	0	0	0	0
1,100	1,125	83	0	0	0	2,775	2,800	397	272	272	147	147	23	0	0	0	0
1,125	1,150	88	0	0	0	2,800	2,825	402	277	277	152	152	27	0	0	0	0
1,150	1,175	93	0	0	0	2,825	2,850	406	282	282	157	157	32	0	0	0	0
1,175	1,200	98	0	0	0	2,850	2,875	411	286	286	161	161	37	0	0	0	0
1,200	1,225	102	0	0	0	2,875	2,900	416	291	291	166	166	41	0	0	0	0
1,225	1,250	107	0	0	0	2,900	2,925	421	296	296	171	171	46	0	0	0	0
1,250	1,275	112	0	0	0	2,925	2,950	426	300	300	176	176	51	0	0	0	0
1,275	1,300	116	0	0	0	2,950	2,975	431	305	305	180	180	55	0	0	0	0
1,300	1,325	121	0	0	0	2,975	3,000	436	310	310	185	185	60	0	0	0	0
1,325	1,350	126	1	0	0	3,000	3,050	444	317	317	192	192	67	0	0	0	0
1,350	1,375	130	5	0	0	3,050	3,100	454	326	326	201	201	76	0	0	0	0
1,375	1,400	135	10	0	0	3,100	3,150	465	335	335	211	211	86	0	0	0	0
1,400	1,425	140	15	0	0	3,150	3,200	475	345	345	220	220	95	0	0	0	0
1,425	1,450	144	20	0	0	3,200	3,250	485	354	354	229	229	105	0	0	0	0
1,450	1,475	149	24	0	0	3,250	3,300	496	363	363	239	239	114	0	0	0	0
1,475	1,500	154	29	0	0	3,300	3,350	506	373	373	248	248	123	0	0	0	0
1,500	1,525	158	34	0	0	3,350	3,400	516	382	382	257	257	133	8	0	0	0
1,525	1,550	163	38	0	0	3,400	3,450	526	392	392	267	267	142	17	0	0	0
1,550	1,575	168	43	0	0	3,450	3,500	537	401	401	276	276	151	27	0	0	0
1,575	1,600	172	48	0	0	3,500	3,550	547	410	410	285	285	161	36	0	0	0
1,600	1,625	177	52	0	0	3,550	3,600	557	420	420	295	295	170	45	0	0	0
1,625	1,650	182	57	0	0	3,600	3,650	568	430	429	304	304	179	55	0	0	0
1,650	1,675	186	62	0	0	3,650	3,700	578	441	438	314	314	189	64	0	0	0
1,675	1,700	191	66	0	0	3,700	3,750	588	451	448	323	323	198	73	0	0	0
1,700	1,725	196	71	0	0	3,750	3,800	598	461	457	332	332	207	83	0	0	0
1,725	1,750	200	76	0	0	3,800	3,850	609	471	466	342	342	217	92	0	0	0
1,750	1,775	205	80	0	0	3,850	3,900	619	482	476	351	351	226	101	0	0	0
1,775	1,800	210	85	0	0	3,900	3,950	629	492	485	360	360	236	111	0	0	0
1,800	1,825	215	90	0	0	3,950	4,000	640	502	495	370	370	245	120	0	0	0
1,825	1,850	219	94	0	0	4,000	4,050	650	513	504	379	379	254	129	5	0	0
1,850	1,875	224	99	0	0	4,050	4,100	660	523	513	388	388	264	139	14	0	0
1,875	1,900	229	104	0	0	4,100	4,150	671	533	523	398	398	273	148	23	0	0
1,900	1,925	233	108	0	0	4,150	4,200	681	544	532	407	407	282	158	33	0	0
1,925	1,950	238	113	0	0	4,200	4,250	691	554	541	417	417	292	167	42	0	0
1,950	1,975	243	118	0	0	4,250	4,300	701	564	551	427	426	301	176	51	0	0
1,975	2,000	247	122	0	0	4,300	4,350	712	574	560	437	435	310	186	61	0	0
2,000	2,025	252	127	2	0	4,350	4,400	722	585	569	447	445	320	195	70	0	0
2,025	2,050	257	132	7	0	4,400	4,450	732	595	579	458	454	329	204	80	0	0
2,050	2,075	261	137	12	0	4,450	4,500	743	605	588	468	463	339	214	89	0	0
2,075	2,100	266	141	16	0	4,500	4,550	753	616	597	478	473	348	223	98	0	0
2,100	2,125	271	146	21	0	4,550	4,600	763	626	607	489	482	357	232	108	0	0
2,125	2,150	275	151	26	0	4,600	4,650	774	636	616	499	491	367	242	117	0	0
2,150	2,175	280	155	30	0	4,650	4,700	784	647	626	509	501	376	251	126	2	0
2,175	2,200	285	160	35	0	4,700	4,750	794	657	635	520	510	385	261	136	11	0
2,200	2,225	289	165	40	0	4,750	4,800	804	667	644	530	519	395	270	145	20	0
2,225	2,250	294	169	44	0	4,800	4,850	815	677	654	540	529	404	279	154	30	0
2,250	2,275	299	174	49	0	4,850	4,900	825	688	663	550	538	413	289	164	39	0
2,275	2,300	303	179	54	0	4,900	4,950	835	698	672	561	548	423	298	173	48	0
2,300	2,325	308	183	59	0	4,950	5,000	846	708	682	571	557	432	307	183	58	0

“Table II

“Taxable years beginning after August 31, 1951

If adjusted gross income is—		And the number of exemptions is—				If adjusted gross income is—		And the number of exemptions is—												
								1		2		3				4	5	6	7	8 or more
At least	But less than	1	2	3	4 or more	At least	But less than	And tax-payer is single or married filing separately	And tax-payer is head of household	And tax-payer is single or married filing separately	And tax-payer is head of household	And a joint re- turn is filed	And tax-payer is single or married filing separately	And tax-payer is head of household	And a joint re- turn is filed					
																The income and defense tax shall be—				
\$0	\$675	\$0	\$0	\$0	\$0	\$2,325	\$2,350	\$338	\$338	\$203	\$203	\$203	\$68	\$68	\$68	\$0	\$0	\$0	\$0	\$0
675	700	4	0	0	0	2,350	2,375	343	343	208	208	208	73	73	73	0	0	0	0	0
700	725	9	0	0	0	2,375	2,400	348	348	213	213	213	78	78	78	0	0	0	0	0
725	750	14	0	0	0	2,400	2,425	354	354	219	219	219	84	84	84	0	0	0	0	0
750	775	19	0	0	0	2,425	2,450	359	359	224	224	224	89	89	89	0	0	0	0	0
775	800	24	0	0	0	2,450	2,475	364	364	229	229	229	94	94	94	0	0	0	0	0
800	825	30	0	0	0	2,475	2,500	369	369	234	234	234	99	99	99	0	0	0	0	0
825	850	35	0	0	0	2,500	2,525	374	374	239	239	239	104	104	104	0	0	0	0	0
850	875	40	0	0	0	2,525	2,550	379	379	244	244	244	109	109	109	0	0	0	0	0
875	900	45	0	0	0	2,550	2,575	384	384	249	249	249	114	114	114	0	0	0	0	0
900	925	50	0	0	0	2,575	2,600	389	389	254	254	254	119	119	119	0	0	0	0	0
925	950	55	0	0	0	2,600	2,625	394	394	259	259	259	124	124	124	0	0	0	0	0
950	975	60	0	0	0	2,625	2,650	399	399	264	264	264	129	129	129	0	0	0	0	0
975	1,000	65	0	0	0	2,650	2,675	404	404	269	269	269	134	134	134	0	0	0	0	0
1,000	1,025	70	0	0	0	2,675	2,700	409	409	274	274	274	139	139	139	4	0	0	0	0
1,025	1,050	75	0	0	0	2,700	2,725	414	414	279	279	279	144	144	144	9	0	0	0	0
1,050	1,075	80	0	0	0	2,725	2,750	419	419	284	284	284	149	149	149	14	0	0	0	0
1,075	1,100	85	0	0	0	2,750	2,775	424	424	289	289	289	154	154	154	19	0	0	0	0
1,100	1,125	90	0	0	0	2,775	2,800	429	429	294	294	294	159	159	159	24	0	0	0	0
1,125	1,150	95	0	0	0	2,800	2,825	435	435	300	300	300	165	165	165	30	0	0	0	0
1,150	1,175	100	0	0	0	2,825	2,850	440	440	305	305	305	170	170	170	35	0	0	0	0
1,175	1,200	105	0	0	0	2,850	2,875	445	445	310	310	310	175	175	175	40	0	0	0	0
1,200	1,225	111	0	0	0	2,875	2,900	450	450	315	315	315	180	180	180	45	0	0	0	0
1,225	1,250	116	0	0	0	2,900	2,925	455	455	320	320	320	185	185	185	50	0	0	0	0
1,250	1,275	121	0	0	0	2,925	2,950	461	460	325	325	325	190	190	190	55	0	0	0	0
1,275	1,300	126	0	0	0	2,950	2,975	466	466	330	330	330	195	195	195	60	0	0	0	0
1,300	1,325	131	0	0	0	2,975	3,000	472	471	335	335	335	200	200	200	65	0	0	0	0
1,325	1,350	136	1	0	0	3,000	3,050	480	479	343	343	343	208	208	208	73	0	0	0	0
1,350	1,375	141	6	0	0	3,050	3,100	491	490	353	353	353	218	218	218	83	0	0	0	0
1,375	1,400	146	11	0	0	3,100	3,150	503	500	363	363	363	228	228	228	93	0	0	0	0
1,400	1,425	151	16	0	0	3,150	3,200	514	511	373	373	373	238	238	238	103	0	0	0	0
1,425	1,450	156	21	0	0	3,200	3,250	525	521	383	383	383	248	248	248	113	0	0	0	0
1,450	1,475	161	26	0	0	3,250	3,300	536	532	393	393	393	258	258	258	123	0	0	0	0
1,475	1,500	166	31	0	0	3,300	3,350	547	543	403	403	403	268	268	268	133	0	0	0	0
1,500	1,525	171	36	0	0	3,350	3,400	558	553	413	413	413	278	278	278	143	8	0	0	0
1,525	1,550	176	41	0	0	3,400	3,450	569	564	424	424	424	289	289	289	154	19	0	0	0
1,550	1,575	181	46	0	0	3,450	3,500	581	575	434	434	434	299	299	299	164	29	0	0	0
1,575	1,600	186	51	0	0	3,500	3,550	592	585	444	444	444	309	309	309	174	39	0	0	0
1,600	1,625	192	57	0	0	3,550	3,600	603	596	454	454	454	319	319	319	184	49	0	0	0
1,625	1,650	197	62	0	0	3,600	3,650	614	607	465	465	464	329	329	329	194	59	0	0	0
1,650	1,675	202	67	0	0	3,650	3,700	625	617	477	477	474	339	339	339	204	69	0	0	0
1,675	1,700	207	72	0	0	3,700	3,750	636	628	488	486	484	349	349	349	214	79	0	0	0
1,700	1,725	212	77	0	0	3,750	3,800	647	638	499	497	494	359	359	359	224	89	0	0	0
1,725	1,750	217	82	0	0	3,800	3,850	659	649	510	507	505	370	370	370	235	100	0	0	0
1,750	1,775	222	87	0	0	3,850	3,900	670	660	521	518	515	380	380	380	245	110	0	0	0
1,775	1,800	227	92	0	0	3,900	3,950	681	670	532	529	525	390	390	390	255	120	0	0	0
1,800	1,825	232	97	0	0	3,950	4,000	692	681	543	539	535	400	400	400	265	130	0	0	0
1,825	1,850	237	102	0	0	4,000	4,050	703	692	555	550	545	410	410	410	275	140	5	0	0
1,850	1,875	242	107	0	0	4,050	4,100	714	702	566	560	555	420	420	420	285	150	15	0	0
1,875	1,900	247	112	0	0	4,100	4,150	725	713	577	571	565	430	430	430	295	160	25	0	0
1,900	1,925	252	117	0	0	4,150	4,200	736	723	588	582	575	440	440	440	305	170	35	0	0
1,925	1,950	257	122	0	0	4,200	4,250	748	734	599	592	586	451	451	451	316	181	46	0	0
1,950	1,975	262	127	0	0	4,250	4,300	759	745	610	603	596	462	461	461	326	191	56	0	0
1,975	2,000	267	132	0	0	4,300	4,350	770	755	621	614	606	473	472	471	336	201	66	0	0
2,000	2,025	273	138	3	0	4,350	4,400	781	766	633	624	616	484	482	481	346	211	76	0	0
2,025	2,050	278	143	8	0	4,400	4,450	792	777	644	635	626	495	493	491	356	221	86	0	0
2,050	2,075	283	148	13	0	4,450	4,500	803	787	655	645	636	506	504	501	366	231	96	0	0
2,075	2,100	288	153	18	0	4,500	4,550	814	798	666	656	646	517	514	511	376	241	106	0	0
2,100	2,125	293	158	23	0	4,550	4,600	826	809	677	667	656	529	525	521	386	251	116	0	0
2,125	2,150	298	163	28	0	4,600	4,650	837	819	688	677	667	540	536	532	397	262	127	0	0
2,150	2,175	303	168	33	0	4,650	4,700	848	830	699	688	677	551	546	542	407	272	137	2	0
2,175	2,200	308	173	38	0	4,700	4,750	859	840	710	699	687	562	557	552	417	282	147	12	0
2,200	2,225	313	178	43	0	4,750	4,800	870	851	722	709	697	573	568	562	427	292	157	22	0
2,225	2,250	318	183	48	0	4,800	4,850	881	862	733	720	707	584	578	572	437	302	167	32	0
2,250	2,275	323	188	53	0	4,850	4,90,													

1 **SEC. 103. COMPUTATION OF TAX IN CASE OF CERTAIN**
2 **JOINT RETURNS.**

3 If a joint return of a husband and wife is filed under
4 the provisions of section 51 (b) (3) of the Internal Revenue
5 Code in a case where the husband and wife have different
6 taxable years because of the death of either spouse, and the
7 taxable year of the surviving spouse covered by such joint
8 return began before September 1, 1951, and ended after
9 August 31, 1951, the amendments made by this part shall
10 be applicable in respect of such joint return as if the tax-
11 able years of both spouses covered by the joint return
12 ended on the date of the closing of the surviving spouse's
13 taxable year.

14 **SEC. 104. EFFECTIVE DATE OF PART I.**

15 Except as provided in section 103, the amendments
16 made by this part shall be applicable only with respect to
17 taxable years ending after August 31, 1951. For treat-
18 ment of taxable years (other than the calendar year 1951)
19 beginning before September 1, 1951, and ending after
20 August 31, 1951, see section 131.

1 **PART II—CORPORATION INCOME TAXES**

2 **SEC. 121. INCREASE IN RATE OF CORPORATION NORMAL**
3 **TAX.**

4 (a) **AMENDMENT OF SECTION 13.**—Subsections (a)
5 and (b) of section 13 (relating to normal tax on corpora-
6 tions) are hereby amended to read as follows:

7 “(a) **DEFINITIONS.**—For the purposes of this chapter—

8 “(1) **ADJUSTED NET INCOME.**—The term ‘adjusted
9 net income’ means the net income minus the credit pro-
10 vided in section 26 (a), relating to interest on certain
11 obligations of the United States and Government
12 corporations.

13 “(2) **NORMAL-TAX NET INCOME.**—The term ‘nor-
14 mal-tax net income’ means the adjusted net income
15 minus the sum of the following credits:

16 “(A) The credit for dividends received pro-
17 vided in section 26 (b) ;

18 “(B) In the case of a public utility, the credit
19 for dividends paid on its preferred stock provided
20 in section 26 (h) ; and

21 “(C) In the case of a western hemisphere
22 trade corporation (as defined in section 109), the
23 credit provided in section 26 (i) .

24 “(b) **IMPOSITION OF TAX.**—There shall be levied,
25 collected, and paid for each taxable year upon the normal-

1 tax net income of every corporation (except a corporation
2 subject to a tax imposed by section 231 (a), supplement
3 G, or supplement Q) a tax of 30 per centum of the normal-
4 tax net income.”

5 (b) MAXIMUM TAX.—Section 430 (a) (1) (relat-
6 ing to the limitation on the rate of the excess profits tax) is
7 hereby amended by striking out “62 per centum” and insert-
8 ing in lieu thereof “70 per centum”.

9 (c) MUTUAL INSURANCE COMPANIES OTHER THAN
10 LIFE OR MARINE.—

11 (1) Section 207 (a) (1) (relating to normal tax
12 and surtax on mutual insurance companies, other than
13 life or marine) is hereby amended by striking out sub-
14 paragraphs (A) and (B) and inserting in lieu thereof
15 the following:

16 “(A) Normal Tax.—A normal tax of 30 per
17 centum of the normal-tax net income, or 60 per
18 centum of the amount by which the normal-tax
19 net income exceeds \$3,000, whichever is the lesser;
20 plus

21 “(B) Surtax.—A surtax of 22 per centum
22 of the corporation surtax net income in excess of
23 \$25,000.”

24 (2) Section 207 (a) (3) (relating to a normal

1 tax and surtax on interinsurers and reciprocal under-
 2 writers) is hereby amended by striking out subpara-
 3 graphs (A) and (B) and inserting in lieu thereof the
 4 following:

5 “(A) Normal Tax.—A normal tax of 30 per
 6 centum of the normal-tax net income, or 60 per
 7 centum of the amount by which the normal-tax
 8 net income exceeds \$50,000, whichever is the
 9 lesser; plus

10 “(B) Surtax.—A surtax of 22 per centum of
 11 the corporation surtax net income in excess of
 12 \$25,000, or 33 per centum of the amount by which
 13 the corporation surtax net income exceeds \$50,000,
 14 whichever is the lesser.”

15 (d) REGULATED INVESTMENT COMPANIES.—Section
 16 362 (b) (relating to tax on regulated investment com-
 17 panies) is hereby amended by striking out paragraphs (3)
 18 and (4) and inserting in lieu thereof the following:

19 “(3) There shall be levied, collected, and paid for
 20 each taxable year upon its supplement Q net income a
 21 tax equal to 30 per centum of the amount thereof.

22 “(4) There shall be levied, collected, and paid for
 23 each taxable year upon its supplement Q surtax net
 24 income a tax equal to 22 per centum of the amount
 25 thereof in excess of \$25,000.”

1 (e) BUSINESS INCOME OF CERTAIN SECTION 101
 2 ORGANIZATIONS.—Section 421 (a) (1) (relating to im-
 3 position of tax on business income of certain section 101
 4 organizations) is hereby amended by striking out “25 per
 5 centum” and inserting in lieu thereof “30 per centum”.

6 (f) TECHNICAL AMENDMENTS.—

7 (1) REPEAL OF SECTION 14.—Section 14 (relat-
 8 ing to normal tax on special classes of corporations in the
 9 case of taxable years beginning before July 1, 1950)
 10 is hereby repealed.

11 (2) AMENDMENT OF SECTION 15.—Section 15
 12 (relating to surtax on corporations) is hereby amended
 13 to read as follows:

14 **“SEC. 15. SURTAX ON CORPORATIONS.**

15 “(a) CORPORATION SURTAX NET INCOME.—For the
 16 purposes of this chapter, the term ‘corporation surtax net
 17 income’ means the net income minus the sum of the follow-
 18 ing credits:

19 “(1) The credit for dividends received provided in
 20 section 26 (b) ;

21 “(2) In the case of a public utility, the credit for
 22 dividends paid on its preferred stock provided in section
 23 26 (h) ;

24 “(3) In the case of a western hemisphere trade

1 corporation (as defined in section 109), the credit pro-
 2 vided in section 26 (i).

3 “(b) IMPOSITION OF TAX.—There shall be levied, col-
 4 lected, and paid for each taxable year upon the corporation
 5 surtax net income of every corporation (except a corporation
 6 subject to a tax imposed by section 231 (a), supplement G,
 7 or supplement Q) a surtax of 22 per centum of the amount
 8 of the corporation surtax net income in excess of the surtax
 9 exemption provided in section 26 (j).”

10 SEC. 122. CREDITS OF CORPORATIONS.

11 (a) DIVIDENDS RECEIVED CREDIT.—Paragraphs (1)
 12 and (2) of section 26 (b) (relating to credit for dividends
 13 received) are hereby amended to read as follows:

14 “(1) IN GENERAL.—85 per centum of the amount
 15 received as dividends (other than dividends described
 16 in paragraph (2) on the preferred stock of a public
 17 utility) from a domestic corporation which is subject to
 18 taxation under this chapter; and

19 “(2) CERTAIN PREFERRED STOCK.—62 per centum
 20 of the amount received as dividends on the preferred
 21 stock of a public utility which is subject to taxation under
 22 this chapter.”

23 (b) CREDIT FOR DIVIDENDS PAID ON CERTAIN PRE-
 24 FERRED STOCK.—The first sentence of section 26 (h) (1)
 25 (relating to amount of credit for dividends paid on certain

1 preferred stock) is hereby amended to read as follows: "In
 2 the case of a public utility, an amount equal to 27 per
 3 centum of the lesser of (A) the amount of dividends paid
 4 during the taxable year on its preferred stock or (B) the
 5 adjusted net income for such taxable year minus the credit
 6 for dividends received provided in subsection (b) for such
 7 year."

8 (c) WESTERN HEMISPHERE TRADE CORPORATIONS.—
 9 Section 26 (i) (relating to credit of a western hemisphere
 10 trade corporation) is hereby amended to read as follows:

11 "(i) WESTERN HEMISPHERE TRADE CORPORATIONS.—
 12 In the case of a western hemisphere trade corporation (as
 13 defined in section 109), an amount equal to 27 per centum
 14 of its normal-tax net income computed without regard to the
 15 credit provided in this subsection."

16 **SEC. 123. SURTAX EXEMPTIONS AND CERTAIN CREDITS**
 17 **OF RELATED CORPORATIONS.**

18 (a) LIMITATION ON SURTAX EXEMPTION IN THE
 19 CASE OF RELATED CORPORATIONS.—Section 26 (relating
 20 to credits of corporations) is hereby amended by adding at
 21 the end thereof the following new subsection:

22 "(j) SURTAX EXEMPTION.—

23 "(1) IN GENERAL.—Except in the case of a cor-
 24 poration to which paragraph (2) is applicable for the
 25 taxable year, a surtax exemption of \$25,000.

1 “(2) RELATED CORPORATIONS.—In the case of a
2 corporation which on December 31 of any year is a
3 member of a controlled group as defined in paragraph
4 (3), a surtax exemption, for the taxable year which
5 includes such date, in an amount equal to \$25,000
6 divided by the number of corporations in such group at
7 the close of such date. In lieu of such exemption, a
8 surtax exemption of \$25,000 for the controlled group
9 may be divided (in any manner) by the corporations
10 which at the close of such date are members of such
11 group by making and filing with the Secretary a consent
12 setting forth the portion of the \$25,000 which will
13 be taken by each member as its surtax exemption for
14 its taxable year which includes such date. The consent
15 shall be made and filed at such time and in such manner
16 as the Secretary by regulations may prescribe. If a
17 member of a controlled group has a taxable year which
18 does not include December 31, the surtax exemption for
19 such member for such taxable year shall be an amount
20 equal to \$25,000 divided by the number of corporations
21 in such group at the close of such taxable year.

22 “(3) DEFINITION OF CONTROLLED GROUP.—For
23 the purposes of paragraph (2), a ‘controlled group’
24 means:

25 “(A) Any group of one or more chains of

corporations connected through ownership with a common parent corporation if—

“(i) stock possessing at least 95 per centum of the voting power of all classes of stock of each of the corporations (except the common parent corporation) is owned directly by one or more of the other corporations; and

“(ii) the common parent corporation owns directly stock possessing at least 95 per centum of the voting power of all classes of stock of at least one of the other corporations, excluding, in computing such voting power, stock held by such other corporations.

“(B) Any group of two or more corporations if at least 95 per centum of the voting power of all classes of stock of each of the corporations is owned, directly or indirectly, by or for one individual, or is owned, directly or indirectly, by or for not more than five individuals each of whom owns substantially the same proportion of the voting power in any one of such corporations as he owns in each of the other corporations. For the purposes of this subparagraph—

“(i) an individual shall be considered as owning substantially the same proportion of the

1 voting power in any two corporations if, and
2 only if, he could own the same proportion of the
3 voting power in each by increasing by not more
4 than 10 per centum his voting power in one of
5 the corporations and decreasing by not more
6 than 10 per centum his voting power in the
7 other corporation;

8 “(ii) stock owned, directly or indirectly,
9 by or for a corporation, partnership, estate,
10 or trust, shall be considered as being owned
11 proportionately by or for its shareholders, part-
12 ners, or beneficiaries;

13 “(iii) an individual shall be considered as
14 owning the stock owned, directly or indirectly,
15 by or for his spouse;

16 “(iv) if an individual owns more than 50
17 per centum of the voting power in any corpora-
18 tion (including the voting power of the stock
19 owned by him upon the application of clauses
20 (ii) and (iii)), such individual shall be con-
21 sidered as owning the stock owned in such cor-
22 poration, directly or indirectly, by or for his
23 ancestors and lineal decedents;

24 “(v) stock constructively owned by a per-
25 son by reason of the application of clause (ii)

shall, for the purpose of applying clause (ii), (iii), or (iv), be treated as actually owned by such person, but stock constructively owned by an individual by reason of the application of clause (iii) or (iv) shall not be treated as owned by him for the purpose of applying either such clause in order to make another the constructive owner of such stock; and

“(vi) if stock may be treated as constructively owned by two or more individuals, such stock shall, in any computation to determine the proportionate voting power of such individuals, be treated in such computation as constructively owned by the individual whose constructive ownership of such stock results in the corporation being a member of a controlled group.

If a group of corporations described in subparagraph (B) includes a common parent corporation included in a group described in subparagraph (A), then each member of the group described in subparagraph (A) of which the common parent corporation is a member shall be a member of the group described in subparagraph (B). For the purposes of this paragraph, treasury stock shall not be considered to be voting stock.”

1 (b) **INSURANCE COMPANIES.**—Section 201 (g) (re-
2 lating to credits under section 26 allowed life insurance com-
3 panies) and section 204 (f) (relating to credits under sec-
4 tion 26 allowed to insurance companies other than life or
5 mutual) are each amended by adding at the end thereof
6 the following new sentence: “In computing the surtax im-
7 posed by this section, in the manner provided in section
8 15 (b), the surtax exemption provided in section 26 (j)
9 shall be allowed.”

10 (c) **MINIMUM EXCESS PROFITS CREDIT.**—The last
11 sentence of section 431 (relating to definition of adjusted
12 excess profits net income) is hereby amended to read as
13 follows: “If such sum is less than its surtax exemption
14 provided in section 26 (j) for the taxable year, such sum
15 shall be increased to the amount of its surtax exemption
16 for such year.”

17 **SEC. 124. COMPUTATION OF ALTERNATIVE CAPITAL GAINS**
18 **TAX.**

19 (a) **ALTERNATIVE TAX.**—Section 117 (c) (1) (relat-
20 ing to alternative tax on corporations) is hereby amended
21 by striking out the second paragraph and inserting in lieu
22 thereof the following:

“(A) A partial tax shall first be computed upon the net income reduced by the amount of such excess, at the rates and in the manner as if this subsection had not been enacted.

“(B) There shall then be ascertained an amount equal to 25 per centum of such excess. In the case of taxable years to which the defense tax provided in section 16 (c) is applicable, such amount shall be increased by the percentage specified in such section.

“(C) The total tax shall be the partial tax computed under subparagraph (A) plus the amount computed under subparagraph (B).”

(b) **EFFECTIVE DATE.**—The amendment made by subsection (a) shall be applicable only with respect to taxable years ending after August 31, 1951.

SEC. 125. EFFECTIVE DATE.

Except as provided in section 124, the amendments made by this part shall be applicable only with respect to taxable years beginning after December 31, 1950. For treatment of taxable years beginning in 1950 and ending in 1951, see part III of this title.

1 **PART III—FISCAL YEAR TAXPAYERS**

2 **SEC. 131. FISCAL YEAR TAXPAYERS.**

3 (a) **AMENDMENT OF SECTION 108.**—Section 108 is
4 hereby amended by striking out paragraph (2) of sub-
5 section (f) and inserting in lieu thereof the following:

6 “(2) that portion of a tentative tax consisting of—

7 “(A) a tentative normal tax of 25 per centum
8 of the normal-tax net income, plus

9 “(B) a tentative surtax of 20 per centum of
10 the surtax net income in excess of \$25,000,

11 which the number of days in such taxable year after
12 June 30, 1950, and before January 1, 1951, bears to the
13 total number of days in such taxable year, plus (if the
14 taxable year ends in 1951)

15 “(3) that portion of a tentative tax consisting of—

16 “(A) a tentative normal tax of 30 per centum
17 of the normal-tax net income, plus

18 “(B) a tentative surtax of 20 per centum of
19 the surtax net income in excess of \$25,000,

20 which the number of days in such taxable year after
21 December 31, 1950, bears to the total number of days
22 in such taxable year.

23 In computing for the purposes of paragraph (2) the normal-
24 tax net income and the corporation surtax net income, the
25 credits provided in section 26 applicable to taxable years

1 beginning on July 1, 1950, shall be allowed in the manner
2 and to the extent provided in sections 13 and 15
3 applicable to years beginning on such date, except that
4 such credits shall be applied without regard to the amend-
5 ments made to section 26 by title II of the Excess Profits
6 Tax Act of 1950. In computing for the purposes of para-
7 graph (3) the normal-tax net income and the corporation
8 surtax net income, the credits provided in section 26 appli-
9 cable to taxable years beginning on January 1, 1951, shall
10 be allowed in the manner and to the extent provided in sec-
11 tions 13 and 15 applicable to years beginning on such date.

12 “(g) TAXABLE YEARS OF CORPORATIONS BEGINNING
13 AFTER JUNE 30, 1950, AND BEFORE 1951, AND ENDING
14 IN 1951.—In the case of a taxable year of a corporation
15 beginning after June 30, 1950, and before January 1, 1951,
16 and ending after December 31, 1950, the tax imposed by
17 sections 13 and 15 shall be an amount equal to the sum of—

18 “(1) that portion of a tentative tax, computed
19 under the provisions of sections 13 and 15 applicable
20 to such taxable year, which the number of days in such
21 taxable year prior to January 1, 1951, bears to the
22 total number of days in such taxable year, plus

23 “(2) that portion of a tentative tax, computed
24 under the provisions of sections 13 and 15 applicable to
25 years beginning on January 1, 1951, as if such pro-

visions were applicable to such taxable year, which the number of days in such taxable year after December 31, 1950, bears to the total number of days in such taxable year. For the purposes of this paragraph a surtax exemption of \$25,000 shall be allowed in lieu of the exemption provided in section 26 (j).

“(h) CERTAIN TAXABLE YEARS OF INDIVIDUALS BEGINNING BEFORE SEPTEMBER 1, 1951, AND ENDING AFTER AUGUST 31, 1951.—In the case of a taxable year (other than one beginning on January 1, 1951, and ending on December 31, 1951) of a taxpayer, other than a corporation, beginning before September 1, 1951, and ending after August 31, 1951, the tax imposed by sections 11 and 12, section 400, or section 421 (a) (2), shall be an amount equal to the sum of—

“(1) that portion of a tentative tax, computed under the provisions of sections 11 and 12, or section 400, applicable to taxable years beginning on October 1, 1950, which the number of calendar months in such taxable year prior to September 1, 1951, bears to the total number of calendar months in such taxable year, plus

“(2) that portion of a tentative tax, computed under the provisions of sections 11 and 12, or section 400, applicable to years beginning on September 1,

1 1951, as if such provisions (other than the provisions
2 relating to head of household) were applicable to such
3 taxable year, which the number of calendar months
4 in such taxable year after August 31, 1951, bears to
5 the total number of calendar months in such taxable
6 year.

7 For the purposes of this subsection, a calendar month only
8 part of which falls within the taxable year (A) shall be
9 disregarded if less than 15 days of such month are included
10 in such taxable year, and (B) shall be included as a calendar
11 month within the taxable year if more than 14 days of such
12 month fall within the taxable year. This subsection shall
13 not apply in the case of a trust described in section 421
14 (b) (2) if the taxable year of such trust began before
15 January 1, 1951.”

16 (b) COMPUTATION OF EXCESS PROFITS TAX.—Sub-
17 section (b) of section 430 (relating to computation of ex-
18 cess profits tax in the case of certain taxable years) is hereby
19 amended to read as follows:

20 “(b) CERTAIN TAXABLE YEARS BEGINNING BEFORE
21 1951.—

22 “(1) TAXABLE YEARS ENDING BEFORE JANUARY
23 1, 1951.—In the case of a taxable year beginning be-
24 fore July 1, 1950, and ending after June 30, 1950, and
25 before January 1, 1951, the tax imposed by subsection

1 (a) shall be an amount equal to that portion of a tenta-
2 tive tax, computed under the provisions of subsection
3 (a) applicable to taxable years ending on December 31,
4 1950, which the number of days in such taxable year
5 after June 30, 1950, bears to the total number of days
6 in such taxable year.

7 “(2) TAXABLE YEARS ENDING AFTER DECEMBER
8 31, 1950.—In the case of a taxable year beginning
9 before January 1, 1951, and ending after December 31,
10 1950, the tax imposed by subsection (a) shall be an
11 amount equal to the sum of—

12 “(A) that portion of a tentative tax, com-
13 puted under the provisions of subsection (a) ap-
14 plicable to taxable years ending on December 31,
15 1950, which the number of days in such taxable
16 year after June 30, 1950, and before January 1,
17 1951, bears to the total number of days in such
18 taxable year, plus

19 “(B) that portion of a tentative tax, computed
20 under the provisions of subsection (a) applicable
21 to taxable years beginning on January 1, 1951,
22 which the number of days in such taxable year after
23 December 31, 1950, bears to the total number of
24 days in such taxable year.”

(c) TECHNICAL AMENDMENTS.—

(1) Section 108 (e) (2) is hereby amended by inserting after “section 400,” the following: “applicable to years beginning on October 1, 1950,”.

(2) Section 108 (g) is hereby amended by striking out “(g)” and inserting in lieu thereof “(i)”.

TITLE II—WITHHOLDING OF TAX AT SOURCE

PART I—WITHHOLDING OF TAX AT SOURCE ON DIVIDENDS, INTEREST, AND ROYALTIES

SEC. 201. COLLECTION OF INCOME TAX AT SOURCE ON DIVIDENDS, INTEREST, AND ROYALTIES.

Subtitle B of the Internal Revenue Code is hereby amended by inserting before chapter 7 the following new chapter:

“CHAPTER 6—COLLECTION OF INCOME TAX AT SOURCE ON DIVIDENDS, INTEREST, AND ROY- ALTIES

“Subchapter A—Dividends and Interest

“SEC. 1200. DEFINITIONS.

“As used in this chapter—

“(a) DIVIDEND.—The term ‘dividend’ means—

“(1) any distribution by a corporation which is a dividend as defined in section 115 (a) ; and

1 “(2) a payment made by a stockbroker to any per-
2 son as a substitute for a dividend (as defined in section
3 115 (a)) upon which a tax is required to be deducted
4 and withheld under this subchapter.”

5 “(b) INTEREST.—The term ‘interest’ means—

6 “(1) interest on all bonds, debentures, notes, cer-
7 tificates, or other evidences of indebtedness, issued by
8 any corporation, with interest coupons or in registered
9 form;

10 “(2) interest on deposits with stockbrokers;

11 “(3) interest on amounts held by an insurance
12 company under an agreement to pay interest thereon;
13 and

14 “(4) interest on the overpayment of any internal
15 revenue tax, except income or excess profits taxes im-
16 posed upon corporations.

17 **“SEC. 1201. INCOME TAX COLLECTED AT SOURCE.**

18 “(a) REQUIREMENT OF WITHHOLDING.—Every per-
19 son making payment after December 31, 1951, of a dividend
20 or interest shall deduct and withhold upon such dividend or
21 interest a tax equal to 20 per centum of the amount thereof.
22 If the withholding agent is unable to determine the person
23 to whom the dividend or interest is payable, such tax shall
24 be deducted and withheld at the time payment thereof would

1 be made if such person were known. For certain exemptions
2 from withholding, see section 1202.

3 “(b) WITHHOLDING WHERE AMOUNT OF DIVIDEND
4 IS UNKNOWN.—If the withholding agent is unable to deter-
5 mine the portion of a distribution which is a dividend, the
6 tax required to be deducted and withheld under this sub-
7 chapter shall be computed on the entire amount of the
8 distribution.

9 “(c) INDEMNIFICATION OF WITHHOLDING AGENT.—
10 A withholding agent shall not be liable, except as provided
11 in section 1203, to any person for the amount of any tax
12 required to be deducted and withheld under this subchapter.

13 “(d) CREDIT FOR TAX WITHHELD.—For credit, against
14 the income tax of the recipient of the income, of amounts
15 required to be deducted and withheld under this subchapter,
16 see section 35.

17 **“SEC. 1202. EXEMPTIONS FROM WITHHOLDING.**

18 “The provisions of this chapter shall not apply to:

19 “(a) A dividend paid in the stock or rights to acquire
20 the stock of the distributing corporation, whether or not the
21 recipient of such stock or rights had an option to be paid
22 in money, or other property, in lieu of such stock or rights.

23 “(b) Distributions (other than capital gain dividends
24 described in section 362 (b) (7)) to shareholders which

1 are treated under chapter 1 as amounts received upon the
2 sale or exchange of property, or distributions with respect
3 to which gain or loss is not recognized under chapter 1 to
4 the shareholders.

5 “(c) Any amount which is includible in gross in-
6 come as a taxable dividend under the provisions of section
7 112 (c) (2) (relating to certain distributions made in pur-
8 suance of a plan of reorganization), section 115 (g) (relat-
9 ing to redemptions of stock), or section 371 (e) (2) (re-
10 lating to certain distributions pursuant to the order of the
11 Securities and Exchange Commission).

12 “(d) A dividend paid by a Federal reserve bank, Fed-
13 eral land bank, Federal home loan bank, Central Bank for
14 Cooperatives, or Bank for Cooperatives.

15 “(e) Any interest which, irrespective of the person to
16 whom payable, is wholly exempt from the tax imposed by
17 chapter 1.

18 “(f) Dividends or interest paid by a corporation to
19 another corporation if both corporations are members of
20 the same affiliated group which filed a consolidated return
21 under chapter 1 for the preceding taxable year of the payor
22 corporation.

23 “(g) Dividends or interest paid by a corporation to one
24 or more (1) governments, (2) political subdivisions thereof,

1 (3) international organizations, or (4) wholly owned in-
2 strumentalities or agencies of the foregoing, if the entire
3 class of stock in respect of which such dividend is paid, or the
4 entire class of obligations in respect of which such interest
5 is paid, is owned by one or more of such governments, sub-
6 divisions, organizations, instrumentalities, or agencies.

7 “(h) Interest on equipment trust certificates.

8 “(i) Dividends or interest paid by a foreign corpora-
9 tion, a nonresident alien individual, any partnership not en-
10 gaged in trade or business within the United States and
11 composed in whole or in part of nonresident aliens, or by
12 an international organization.

13 “(j) (1) Any payment of a dividend or interest (ex-
14 cept coupon bond interest) to (A) a foreign corporation
15 not engaged in trade or business within the United States,
16 (B) a nonresident alien individual, (C) any partnership
17 not engaged in trade or business within the United States
18 and composed in whole or in part of nonresident aliens, or
19 (D) any foreign government or international organization.

20 “(2) Any payment of coupon bond interest to a person
21 described in paragraph (1) of this subsection, but only if a
22 certificate filed (in such form and manner, and at such time,
23 as the Secretary may by regulations prescribe) with the
24 withholding agent discloses that the recipient of such pay-

1 ment is a person described in paragraph (1).

2 “(k) Any payment upon which the withholding agent
3 is required to deduct and withhold a tax under section 143
4 (a) (relating to tax-free covenant bonds, etc.) determined
5 without regard to the provisions of paragraph (2) of such
6 section.

7 “(l) Interest on an obligation of a corporation, issued
8 on or after January 1, 1934, and before January 1, 1951,
9 containing a contract or provision by which the obligor
10 agrees to pay the interest without deduction for any tax
11 which the obligor may be required to pay thereon or to re-
12 tain therefrom under any law of the United States.

13 “(m) Dividends paid pursuant to the terms of a lease
14 of property entered into prior to January 1, 1951, if under
15 such lease the shareholders of the lessor corporation are en-
16 titled to such dividends without deduction for any tax which
17 any law of the United States might require to be deducted
18 and withheld upon the payment of dividends.

19 “(n) Amounts (whether or not designated as divi-
20 dends) paid by a mutual savings bank, savings and loan
21 association, building and loan association, cooperative bank,
22 homestead association, credit union, or any similar organiza-
23 tion, in respect of withdrawable or repurchaseable shares,
24 investment certificates, or deposits.

1 **“SEC. 1203. RETURNS AND PAYMENT.**

2 “(a) IN GENERAL.—Every person required under this
3 subchapter to deduct and withhold any tax shall make a
4 return of such tax and shall pay such tax, at such time, for
5 such period, and in such manner as the Secretary may by
6 regulations prescribe, by making a return of the total amount
7 of dividends and interest with respect to which tax is
8 required to be deducted and withheld by such person under
9 this subchapter for such period and paying a tax, for which
10 such person shall be liable, in an amount equal to 20 per
11 centum of such total.

12 “(b) ADJUSTMENT OF TAX.—If more or less than the
13 correct amount of tax due for any period under subsection
14 (a) is paid with respect to such period, proper adjustments
15 with respect to the tax shall be made, without interest, in
16 such manner and at such times as may be prescribed by
17 regulations made under this subchapter.

18 **“SEC. 1204. CREDIT FOR REGULATED INVESTMENT COM-**
19 **PANIES AND PERSONAL HOLDING COMPANIES.**

20 “**In the case of any withholding agent which is a regu-**
21 **lated investment company as defined in section 361 or a**
22 **personal holding company as defined in section 501, the**
23 **amount required to be deducted and withheld as tax under**
24 **this chapter with respect to dividends and interest received**

1 by it during a taxable year shall be allowed, under regula-
2 tions prescribed by the Secretary, as a credit against (but
3 not in excess of) the tax for which such withholding agent
4 is liable under section 1203 (a) in respect of dividends and
5 interest paid by it during such year. For the purposes of
6 this section a dividend shall be considered as having been
7 paid within a taxable year (1) in the case of a regulated
8 investment company, if treated as paid during such taxable
9 year under section 362 (b) (8), or (2) in the case of a
10 personal holding company, if claimed under section 504 (c),
11 in computing undistributed subchapter A net income, in the
12 return for such year.

13 **“Subchapter B—Royalties**

14 **“SEC. 1220. DEFINITION OF ROYALTY.**

15 “As used in this chapter, the term ‘royalty’ means—

16 “(a) any rent or royalty in respect of mines, oil
17 and gas wells, and other natural deposits, including any
18 delay rental and any minimum royalty, whether or not
19 measured by production or by a share of gross or net
20 income therefrom, and any payment representing a
21 share of the gross or net income derived from the ex-
22 traction and sale of any natural deposit, but only if
23 the recipient of such rent, royalty, or payment is not
24 personally obligated to pay a proportionate share of
25 development or operating expenses. For the pur-

poses of this chapter, if a royalty, as defined in the preceding sentence, is paid in kind, such payment shall not constitute payment of a royalty, but if the mineral, oil, gas, or other natural deposit so received in kind is sold by or on behalf of the recipient to the producer or under a division order, the purchaser shall be considered as making payment of the royalty in an amount equal to the purchase price;

“(b) any payment, however designated, made by a corporation for the privilege of using any patent, pending application for a patent, copyright, secret process or formula, trade mark, or trade brand, including any payments made by an assignee or an exclusive licensee thereof, if measured by the use of a patent, pending application for a patent, copyright, secret process or formula, trade mark, or trade brand, or if payable over a period substantially coterminous with the period of the payor’s right to use such property, but not including any payments in respect of copyrights made to an organization to which subsection (c) is applicable; and

“(c) any payment made by an organization to its members in respect of the use of their copyrights, if such organization is authorized to license the use of such copyrights and has control of the receipt, allocation, and distribution of the payments made for such use.

1 **"SEC. 1221. INCOME TAX COLLECTED AT SOURCE.**

2 “(a) **REQUIREMENT OF WITHHOLDING.**—Every per-
3 son making payment after December 31, 1951, of a royalty
4 shall deduct and withhold upon such royalty a tax equal to
5 20 per centum of the amount thereof. If the withholding
6 agent is unable to determine the person to whom the royalty
7 is payable, such tax shall be deducted and withheld at the
8 time payment thereof would be made if such person were
9 known. For certain exemptions from withholding see sec-
10 tion 1222.

11 “(b) **TAX PAID BY RECIPIENT.**—If the withholding
12 agent, in violation of the provisions of this subchapter, fails
13 to deduct and withhold the tax under this subchapter, and
14 thereafter the tax against which such tax may be credited is
15 paid, the tax so required to be deducted and withheld shall
16 not be collected from the withholding agent, but this sub-
17 section shall in no case relieve the withholding agent from
18 liability for any penalties or additions to the tax otherwise
19 applicable in respect of such failure to deduct and withhold.

20 “(c) **LIABILITY FOR TAX.**—The withholding agent
21 shall be liable for the payment of the tax required to be
22 deducted and withheld under this subchapter, and shall not
23 be liable to any person for the amount of any such payment.

1 “(d) REFUNDS AND CREDITS.—

2 “(1) WITHHOLDING AGENT.—Where there has
3 been an overpayment of tax under this subchapter,
4 refund or credit shall be made to the withholding agent
5 only to the extent that the amount of such overpayment
6 was not deducted and withheld under this subchapter
7 by the withholding agent.

8 “(2) RECIPIENT.—For credit, against the income
9 tax of the recipient of the income, of amounts deducted
10 and withheld under this subchapter, see section 35.

11 **“SEC. 1222. EXEMPTIONS FROM WITHHOLDING.**

12 “The provisions of this chapter shall not apply to—

13 “(a) Royalties paid to a corporation or to a govern-
14 ment or political subdivision thereof.

15 “(b) Royalties paid by a foreign corporation, a non-
16 resident alien individual, a partnership not engaged in trade
17 or business within the United States and composed in whole
18 or in part of nonresident aliens, or an international organi-
19 zation.

20 “(c) Royalties paid to (1) a nonresident alien indi-
21 vidual, (2) a partnership not engaged in trade or business
22 within the United States and composed in whole or in part
23 of nonresident aliens, or (3) an international organization.

1 **“SEC. 1223. RETURNS AND PAYMENT.**

2 “(a) **IN GENERAL.**—Every person required under this
3 subchapter to deduct and withhold any tax shall make a
4 return of such tax and shall pay such tax, at such time, for
5 such period, and in such manner as the Secretary may by
6 regulations prescribe.

7 “(b) **ADJUSTMENT OF TAX.**—If more or less than the
8 correct amount of tax imposed by this subchapter is paid
9 with respect to any payment of royalties, proper adjustments,
10 with respect both to the tax and the amount to be deducted,
11 shall be made, without interest, in such manner and at such
12 times as may be prescribed by regulations made under this
13 subchapter.

14 **“SEC. 1224. RECEIPTS.**

15 “(a) **REQUIREMENT.**—Every person required under
16 this subchapter to deduct and withhold tax on a royalty,
17 shall, not later than January 31 of the year succeeding the
18 calendar year in which the royalty is paid, furnish to the
19 payee of the royalty a written statement showing the amount
20 of the royalties paid to such payee during such calendar
21 year, and the amount of tax deducted and withheld under
22 this subchapter in respect of such royalties.

23 “(b) **STATEMENTS TO CONSTITUTE INFORMATION**
24 **RETURNS.**—The statements required to be furnished by this

1 section in respect of any royalty shall be furnished at such
2 other times, shall contain such other information, and shall
3 be in such form as the Secretary may by regulations pre-
4 scribe. A duplicate of such statement if made and filed in
5 accordance with regulations prescribed by the Secretary shall
6 constitute the return required to be made in respect of such
7 royalties under section 147.

8 “(c) EXTENSION OF TIME.—The Secretary, under
9 regulations prescribed by him, may grant to any person a
10 reasonable extension of time (not in excess of 30 days) with
11 respect to the statements required to be furnished by such
12 person under this section.

13 **“SEC. 1225. PENALTIES.**

14 “(a) CRIMINAL PENALTY.—In lieu of any other pen-
15 alty provided by law (except the penalty provided by sub-
16 section (b) of this section), any person required under the
17 provisions of section 1224 to furnish a statement who will-
18 fully furnishes a false or fraudulent statement, or who will-
19 fully fails to furnish a statement in the manner, at the time,
20 and showing the information required under section 1224,
21 or regulations prescribed thereunder, shall for each such
22 offense, upon conviction thereof, be fined not more than
23 \$1,000, or imprisoned for not more than one year, or both.

24 “(b) CIVIL PENALTY.—In addition to the penalty pro-

1 vided by subsection (a) of this section, any person required
2 under the provisions of section 1224 to furnish a statement
3 who willfully furnishes a false or fraudulent statement, or
4 who willfully fails to furnish a statement in the manner, at
5 the time, and showing the information required under section
6 1224, or regulations prescribed thereunder, shall for each such
7 offense be subject to a civil penalty of not more than \$50.

“Subchapter C—General Provisions

“SEC. 1230. DEFINITIONS.

“As used in this chapter—

“ (a) **TAXABLE YEAR.**—The term ‘taxable year’ shall have the same meaning as when used in chapter 1.

“ (b) **PERSON.**—The term ‘person’ includes any government or political subdivision, or agency or instrumentality thereof.

“ (c) **NONRESIDENT ALIEN.**—The term ‘nonresident alien individual’ includes an alien resident of Puerto Rico.

**“SEC. 1231. NONDEDUCTIBILITY OF TAX IN COMPUTING
NET INCOME.**

“Any tax deducted and withheld under this chapter shall not be allowed as a deduction in computing net income for the purpose of any tax on income imposed by Act of Congress.

**“SEC. 1232. RETURN AND PAYMENT BY GOVERNMENTAL
PAYOR.**

“If the person referred to in section 1203 (a) or 1223 (a) is the United States, or a State, Territory, or political subdivision thereof, or the District of Columbia, or any agency or instrumentality of any one or more of the fore-

1 going, the return and payment required by such sections
2 shall be made by any officer or employee of the United
3 States, or of such State, Territory, or political subdivision,
4 or of the District of Columbia, or of such agency or instru-
5 mentality, as the case may be, having control of the payment
6 of the dividend, interest, or royalty, or appropriately desig-
7 nated for that purpose.

8 **“SEC. 1233. TAX-EXEMPT ORGANIZATIONS—REFUND.**

9 “In the case of a person which is exempt from the tax
10 imposed by chapter 1, if the amount required to be deducted
11 and withheld as tax under this chapter with respect to
12 dividends and interest received by it during any calendar
13 quarter, and the amount deducted and withheld as tax under
14 this chapter with respect to royalties received by it during
15 such calendar quarter, exceed the credit claimed by and
16 allowed to such person under section 1637 for such quarter,
17 the excess shall be immediately refunded or credited to such
18 person as an overpayment of the tax imposed by this chap-
19 ter, but only if claim therefor is filed (or, if no claim is
20 filed, if credit or refund is made) after the close of such
21 calendar quarter and on or before March 15 of the fourth
22 calendar year beginning after the close of such calendar
23 quarter. No interest shall be allowed or paid with respect
24 to any such refund or credit for any period prior to the date
25 on which claim for such refund or credit is filed or prior to

1 March 16 of the calendar year succeeding the close of the
 2 calendar quarter in respect of which such refund or credit
 3 is claimed, whichever date is the later.

4 **"SEC. 1234. FAILURE TO FILE RETURNS.**

5 "In case of a failure to make and file any return re-
 6 quired under this chapter within the time prescribed by
 7 law or prescribed by the Secretary in pursuance of law,
 8 unless it is shown that such failure is due to reasonable cause
 9 and not to willful neglect, the addition to the tax or taxes
 10 required to be shown on such return shall not be less than \$5.

11 **"SEC. 1235. OTHER LAWS APPLICABLE.**

12 "All provisions of law, including penalties, applicable
 13 with respect to any tax imposed by section 2700, and the
 14 provisions of section 3661, shall, insofar as applicable and
 15 not inconsistent with the provisions of this chapter, be ap-
 16 plicable with respect to the tax under this chapter."

17 **SEC. 202. CREDIT FOR TAX WITHHELD.**

18 Section 35 (relating to credit against income tax) is
 19 hereby amended as follows:

20 (1) by striking from the heading thereof the words

21 "ON WAGES";

22 (2) by inserting at the beginning of the first para-
 23 graph thereof the following heading: "(a) CREDIT FOR
 24 TAX WITHHELD ON WAGES.—"; and

1 (3) by inserting at the end thereof the following
2 new subsection:

3 “(b) CREDIT FOR TAX WITHHELD ON DIVIDENDS, IN-
4 TEREST, AND ROYALTIES.—Under regulations prescribed by
5 the Secretary—

6 “(1) IN GENERAL.—The amount required to be
7 deducted and withheld as tax under chapter 6 upon any
8 payment of a dividend or interest, and the amount de-
9 ducted and withheld as tax under such chapter upon
10 any payment of a royalty, shall be allowed as a credit,
11 to the recipient of the income, against the tax imposed
12 by this chapter for the taxable year in which the divi-
13 dend, interest, or royalty is received.

14 “(2) PARTNERSHIPS, TRUSTS, AND ESTATES.—If
15 the recipient of the dividend, interest, or royalty is a
16 partnership or a common trust fund, then the credit
17 shall not be allowed to such recipient, but the members
18 of the partnership, or the participants in the common
19 trust fund, as the case may be, shall be allowed their
20 proportionate share of such credit. If the recipient is
21 an estate or trust, and if any legatee, heir, or beneficiary
22 subject to the tax imposed by this chapter is required
23 to include a portion of such dividend, interest, or royalty
24 in computing his net income, such legatee, heir, or
25 beneficiary shall be allowed such portion of the credit

as is properly allocable to him on the basis of the income allocable to him under section 162 for the taxable year of the estate or trust, and such portion of the credit shall not be allowed to the estate or trust.

“(3) **REGULATED INVESTMENT COMPANIES AND PERSONAL HOLDING COMPANIES.**—In the case of a regulated investment company or a personal holding company, the credit provided in paragraph (1) shall be reduced by the amount of credit allowed such company under section 1204.

“(4) **TAX EXEMPT ORGANIZATIONS.**—The credit provided by this subsection shall not be allowed to any recipient which is exempt from income tax. For credit against the liability of such a recipient in respect of the employment taxes imposed by subchapter A and subchapter D of chapter 9, see section 1637. For refund under chapter 6 in the case of such a recipient, see section 1233.”

SEC. 203. CREDITS IN CASE OF ORGANIZATIONS EXEMPT FROM TAX.

Subchapter E of chapter 9 (relating to employment taxes) is hereby amended by adding after section 1636 the following new section:

1 **“SEC. 1637. SPECIAL CREDIT IN CASE OF ORGANIZATIONS**
2 **EXEMPT FROM INCOME TAX.**

3 “In the case of any person (including any government
4 or political subdivision, agency, or instrumentality thereof)
5 which is exempt from the tax imposed by chapter 1, the
6 amount required to be deducted and withheld as tax under
7 chapter 6 with respect to dividends and interest received
8 by it during any calendar quarter, and the amount deducted
9 and withheld as tax under such chapter with respect to
10 royalties received by it during such calendar quarter, shall
11 be allowed, under regulations prescribed by the Secretary,
12 as a credit against (but not in excess of) the amount shown
13 on the return of such person as its liability (after the adjust-
14 ments, if any, provided for in sections 1401 (c) and 1411)
15 for such quarter in respect of the taxes imposed by sub-
16 chapter A and subchapter D of this chapter. Such credit
17 shall be allowed only if claim therefor is made, in accord-
18 ance with such regulations, at the time of the filing of the
19 return under subchapter A and subchapter D for such quarter.
20 For refund under chapter 6, see section 1233.”

21 **SEC. 204. TECHNICAL AMENDMENTS.**
22

23 (a) **TAX COMPUTED BY COLLECTOR.**—Section 51 (f)
24 (relating to tax computed by collector) is hereby amended
25 to read as follows:

 “(f) **TAX COMPUTED BY COLLECTOR.**—

1 “(1) RETURN REQUIREMENTS.—An individual en-
2 titled to elect to pay the tax imposed by supplement T
3 whose gross income is less than \$5,000 and is entirely
4 from one or more of the following sources: wages as
5 defined in section 1621 (a), or dividends (other than
6 a capital gain dividend as defined in section 362 (b)
7 (7)) or interest on which tax is required to be deducted
8 and withheld under chapter 6, shall at his election be
9 relieved, by using the form prescribed as the form for
10 the return for the purposes of this subsection, from show-
11 ing on the return the tax imposed by this chapter. In
12 such case the tax shall be computed by the collector.

13 “(2) RESULT OF COMPUTATION.—After the col-
14 lector has computed the tax, he shall mail to the tax-
15 payer a notice stating the amount determined by the
16 collector as payable and making demand therefor.

17 “(3) REGULATIONS.—The Secretary shall prescribe
18 regulations for carrying out this subsection, and such
19 regulations may provide for the application of the rules
20 of this subsection to cases where the gross income in-
21 cludes items other than those enumerated in paragraph
22 (1) if the gross income from such other sources is not
23 more than \$200, and to cases where the gross income is
24 \$5,000 or more but not more than \$5,200. Such regu-
25 lations shall provide for the application of this sub-

1 section in the case of husband and wife, including pro-
2 visions determining when a joint return under this
3 subsection may be permitted or required and what con-
4 stitutes a joint return, whether the liability shall be joint
5 and several, and whether one spouse may make return
6 under this subsection and the other without regard to
7 this subsection.

8 “(4) METHOD OF ELECTION.—The election to
9 have the benefits of this subsection shall be made by
10 making return on the form prescribed as the form for
11 the return for the purposes of this subsection. An elec-
12 tion so made shall constitute an election to pay the tax
13 imposed by supplement T.”

14 (b) REQUIREMENT OF DECLARATION OF ESTIMATED
15 TAX.—Section 58 (a) (relating to declaration of estimated
16 tax) is hereby amended to read as follows:

17 “(a) REQUIREMENT OF DECLARATION.—Every in-
18 dividual (other than an estate or trust and other than a
19 nonresident alien with respect to whose wages, as defined
20 in section 1621 (a), withholding under subchapter D of
21 chapter 9 is not made applicable, but including every alien
22 individual who is a resident of Puerto Rico during the entire
23 taxable year) shall, at the time prescribed in subsection (d),

1 make a declaration of his estimated tax for the taxable
2 year if—

3 “(1) his gross income from wages (as defined in
4 section 1621) and from dividends, interest, and royal-
5 ties, as defined in chapter 6, upon which a tax is required
6 to be deducted and withheld under such chapter, can
7 reasonably be expected to exceed the sum of \$4,500
8 plus \$600 with respect to each exemption provided in
9 section 25 (b) ; or

10 “(2) his gross income from sources other than
11 wages (as defined in section 1621) and other than
12 dividends, interest, and royalties, as defined in chapter 6,
13 upon which a tax is required to be deducted and with-
14 held under such chapter, can reasonably be expected to
15 exceed \$100 for the taxable year and his gross income
16 to be \$600 or more.”

17 (c) CREDIT UNDER SECTION 143.—Section 143 (relat-
18 ing to withholding of tax at source) is hereby amended by
19 adding at the end thereof the following new subsection:

20 “(i) CREDIT FOR TAX WITHHELD AT SOURCE.—
21 Where any person is required to deduct and withhold a tax
22 under subsection (b) on an amount on which a tax was re-
23 quired to be deducted and withheld under subchapter A of
24 chapter 6, or on an amount on which a tax was deducted and

1 withheld under subchapter B of such chapter, such person
2 shall deduct and withhold only the excess of—

3 “(1) the amount which would be required to be
4 deducted and withheld under subsection (b) but for the
5 application of chapter 6, over

6 “(2) the amount required to be deducted and with-
7 held under subchapter A of chapter 6, or the amount
8 deducted and withheld under subchapter B of such
9 chapter, whichever is applicable.”

10 (d) CREDIT UNDER SECTION 144.—Section 144 (relat-
11 ing to payment of corporation income tax at source) is
12 hereby amended by striking out the period at the end
13 thereof and adding in lieu thereof the following: “: *Pro-*
14 *vided further*, That, where any person is required under
15 this section to deduct and withhold a tax on an amount
16 on which a tax was required to be deducted and withheld
17 under subchapter A of chapter 6, or on an amount on which
18 a tax was deducted and withheld under subchapter B of
19 such chapter, such person shall deduct and withhold only
20 the excess of—

21 “(1) the amount which would be required to be
22 deducted and withheld under this section but for the
23 application of chapter 6, over

“ (2) the amount required to be deducted and withheld under subchapter A of chapter 6, or the amount deducted and withheld under subchapter B of such chapter, whichever is applicable.”

(e) INFORMATION AT SOURCE.—Subsections (a) and (b) of section 147 (relating to information at source) are hereby amended to read as follows:

“(a) PAYMENTS OF RENT, SALARIES, INTEREST, ETC.—All persons, in whatever capacity acting, including lessees or mortgagors of real or personal property, fiduciaries, and employers, making payment to another person, of—

“(1) rent, salaries, wages, premiums, annuities, compensations, remunerations, emoluments, or other fixed or determinable gains, profits, and income (other than payments described in section 148 (a) or 149), of \$600 or more in any taxable year, or

“(2) interest, upon which tax is required to be deducted and withheld under chapter 6, of \$300 or more in any taxable year, or

“(3) interest, upon which tax is not required to be deducted and withheld under chapter 6, of \$100 or more in any taxable year,

1 or, in the case of such payments made by the United States,
2 the officers or employees of the United States having infor-
3 mation as to such payments and required to make returns
4 in regard thereto by the regulations hereinafter provided for,
5 shall render a true and accurate return to the Secretary,
6 under such regulations and in such form and manner and to
7 such extent as may be prescribed by him, setting forth the
8 amount of such gains, profits, and income, and the name and
9 address of the recipient of such payment.

10 “(b) RETURNS REGARDLESS OF AMOUNT OF PAY-
11 MENT.—Such returns may be required, regardless of
12 amounts, (1) in the case of payments of interest, and (2)
13 in the case of collections of items (not payable in the United
14 States) of interest upon the bonds of foreign countries and
15 interest upon the bonds of and dividends from foreign
16 corporations by persons undertaking as a matter of business
17 or for profit the collection of foreign payments of such
18 interest or dividends by means of coupons, checks, or bills
19 of exchange. This subsection shall not apply to payments
20 of interest (other than coupon bond interest) upon which
21 tax is required to be deducted and withheld under chapter 6.”

22 (f) INFORMATION BY CORPORATIONS.—Section 148
23 (a) (relating to information by corporations in the case of
24 dividend payments) is hereby amended by inserting a
25 comma in lieu of the period at the end thereof and adding

1 the following: “except that if the amount of dividends paid
 2 to any shareholder during a calendar year is less than \$300
 3 and tax is required to be deducted and withheld under chap-
 4 ter 6 upon the entire amount of such dividends, no such
 5 return shall be required with respect to such shareholder for
 6 such calendar year.”

7 (g) CLERICAL AMENDMENT.—Section 169 (b) (re-
 8 lating to taxation of common trust funds) is hereby amended
 9 by striking out “or chapter 6” and by striking out “chapters”
 10 and inserting in lieu thereof “chapter”.

11 (h) AMOUNT OF CREDIT CONSIDERED AS PAYMENT.—
 12 Section 322 (a) (2) (relating to refunds and credits) is
 13 hereby amended to read as follows:

14 “(2) TREATMENT OF CREDITS.—The amount of
 15 the credit provided in section 35 against the tax for any
 16 taxable year shall, to the extent thereof, be considered
 17 as payment of the tax for such year, whether or not the
 18 withholding agent has paid to the collector the amount
 19 of the tax deducted and withheld at the source under
 20 subchapter D of chapter 9 or subchapter B of chapter 6
 21 or the amount of tax required to be deducted and with-
 22 held at source under subchapter A of chapter 6.”

23 (i) SPECIAL PERIOD OF LIMITATIONS FOR SMALL
 24 REFUNDS ON TAX WITHHELD AT SOURCE.—Section 322
 25 (b) (relating to statute of limitations on filing claim for

1 credit or refund) is hereby amended by adding at the end
2 thereof the following new paragraph:

3 “(7) SPECIAL PERIOD OF LIMITATIONS WITH RE-
4 SPECT TO CERTAIN OVERPAYMENTS RESULTING FROM
5 TAX WITHHELD ON DIVIDENDS, INTEREST, OR ROYAL-
6 TIES.—In the case of an individual filing a claim for
7 credit or refund of an overpayment for a taxable year
8 for which he was not required under section 51 (a) to
9 make a return, if the overpayment is attributable to the
10 credit allowed under section 35 for tax required to be
11 deducted and withheld under subchapter A of chapter 6
12 (relating to tax withheld at source on dividends and
13 interest) or for tax deducted and withheld under sub-
14 chapter B of such chapter (relating to tax withheld at
15 source on royalties), in lieu of the period of limitation
16 prescribed in paragraph (1), the period shall be seven
17 years from the date prescribed by law for filing a return
18 for the taxable year with respect to which the claim is
19 made. In such a case, the amount of credit or refund
20 may exceed the portion of the tax paid within the period
21 prescribed in paragraph (2), to the extent of the
22 amount of the overpayment attributable to such credit

1 allowed under section 35, or to the extent of \$2, which-
2 ever is the lesser.”

3 (j) PRESUMPTIONS AS TO DATE OF PAYMENT.—Sec-
4 tion 322 (e) (relating to presumption as to date of pay-
5 ment) is hereby amended to read as follows:

6 “(e) PRESUMPTIONS AS TO DATE OF PAYMENT.—For
7 the purpose of this section—

8 “(1) any amount allowable as a credit under sec-
9 tion 32 (relating to credit for tax withheld at source on
10 tax-free covenant bonds and on payments to nonresi-
11 dent aliens and foreign corporations) or under section
12 35 (relating to credit for tax withheld at source on
13 wages, dividends, interest, and royalties) shall, in re-
14 spect of the person entitled to such credit, be deemed
15 to have been paid by him on the last day prescribed
16 by law (determined without regard to any extension of
17 time granted the taxpayer) for the filing of the return
18 for his taxable year with respect to which such amount
19 is allowable as a credit; and

20 “(2) any amount paid as estimated tax for any
21 taxable year shall be deemed to have been paid on the
22 last day prescribed by law (determined without regard

1 to any extension of time granted the taxpayer) for the
2 filing of the return for such taxable year.”

3 (k) INTEREST ON OVERPAYMENTS.—Section 3771 (f)
4 is hereby amended to read as follows:

5 “(f) TAX WITHHELD AT SOURCE AND ESTIMATED
6 TAX.—

7 “(1) CLAIMS FILED UNDER SPECIAL PERIOD OF
8 LIMITATIONS PROVIDED IN SECTION 322 (b) (7).—If
9 credit or refund of the overpayment would be barred
10 under section 322 (b) except for paragraph (7) thereof,
11 no interest shall be allowed or paid with respect to the
12 overpayment for any period ending prior to the expira-
13 tion of six months after the date on which the claim
14 was filed.

15 “(2) CROSS REFERENCE.—For date of payment in
16 respect of estimated tax and tax withheld at source, see
17 section 322 (e).”

18 (l) DEFINITION OF WITHHOLDING AGENT.—Section
19 3797 (a) (16) is hereby amended by striking out “143 or
20 144”, and by inserting in lieu thereof “143, 144, 1201, or
21 1221”.

22 (m) EFFECTIVE DATE.—The amendments made by
23 subsections (a) and (b) shall be applicable to taxable years
24 beginning after December 31, 1951.

1 **PART II—INCREASE IN WITHHOLDING OF TAX**
2 **AT SOURCE ON WAGES**

3 **SEC. 221. PERCENTAGE METHOD OF WITHHOLDING.**

4 Section 1622 (a) (relating to percentage method of
5 withholding) is hereby amended by striking out “18 per
6 centum” and inserting in lieu thereof “20 per centum”.

7 **SEC. 222. WAGE BRACKET WITHHOLDING.**

8 The tables contained in section 1622 (c) (1) (relating
9 to wage bracket withholding) are hereby amended to read
10 as follows:

“If the payroll period with respect to an employee is weekly

And the wages are—		And the number of withholding exemptions claimed is—										
At least	But less than	0	1	2	3	4	5	6	7	8	9	10 or more
The amount of tax to be withheld shall be—												
\$0	\$13	20% of wages	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
\$13	\$14	\$2.70	.10	0	0	0	0	0	0	0	0	0
\$14	\$15	2.90	.30	0	0	0	0	0	0	0	0	0
\$15	\$16	3.10	.50	0	0	0	0	0	0	0	0	0
\$16	\$17	3.30	.70	0	0	0	0	0	0	0	0	0
\$17	\$18	3.50	.90	0	0	0	0	0	0	0	0	0
\$18	\$19	3.70	1.20	0	0	0	0	0	0	0	0	0
\$19	\$20	3.90	1.40	0	0	0	0	0	0	0	0	0
\$20	\$21	4.20	1.60	0	0	0	0	0	0	0	0	0
\$21	\$22	4.40	1.80	0	0	0	0	0	0	0	0	0
\$22	\$23	4.60	2.00	0	0	0	0	0	0	0	0	0
\$23	\$24	4.80	2.20	0	0	0	0	0	0	0	0	0
\$24	\$25	5.00	2.40	0	0	0	0	0	0	0	0	0
\$25	\$26	5.20	2.60	0	0	0	0	0	0	0	0	0
\$26	\$27	5.40	2.80	.20	0	0	0	0	0	0	0	0
\$27	\$28	5.60	3.00	.40	0	0	0	0	0	0	0	0
\$28	\$29	5.80	3.20	.60	0	0	0	0	0	0	0	0
\$29	\$30	6.00	3.40	.80	0	0	0	0	0	0	0	0
\$30	\$31	6.20	3.60	1.00	0	0	0	0	0	0	0	0
\$31	\$32	6.40	3.80	1.20	0	0	0	0	0	0	0	0
\$32	\$33	6.60	4.00	1.40	0	0	0	0	0	0	0	0
\$33	\$34	6.80	4.20	1.60	0	0	0	0	0	0	0	0
\$34	\$35	7.00	4.40	1.80	0	0	0	0	0	0	0	0
\$35	\$36	7.20	4.60	2.00	0	0	0	0	0	0	0	0
\$36	\$37	7.40	4.80	2.20	0	0	0	0	0	0	0	0
\$37	\$38	7.60	5.00	2.40	0	0	0	0	0	0	0	0
\$38	\$39	7.80	5.20	2.60	0	0	0	0	0	0	0	0
\$39	\$40	8.00	5.40	2.80	.20	0	0	0	0	0	0	0
\$40	\$41	8.20	5.60	3.00	.40	0	0	0	0	0	0	0
\$41	\$42	8.40	5.80	3.20	.60	0	0	0	0	0	0	0
\$42	\$43	8.60	6.00	3.40	.80	0	0	0	0	0	0	0
\$43	\$44	8.80	6.20	3.60	1.00	0	0	0	0	0	0	0
\$44	\$45	9.00	6.40	3.80	1.20	0	0	0	0	0	0	0
\$45	\$46	9.20	6.60	4.00	1.40	0	0	0	0	0	0	0
\$46	\$47	9.40	6.80	4.20	1.60	0	0	0	0	0	0	0
\$47	\$48	9.60	7.00	4.40	1.80	0	0	0	0	0	0	0
\$48	\$49	9.80	7.20	4.60	2.00	0	0	0	0	0	0	0
\$49	\$50	10.00	7.40	4.80	2.20	0	0	0	0	0	0	0
\$50	\$51	10.20	7.60	5.00	2.40	0	0	0	0	0	0	0
\$51	\$52	10.40	7.80	5.20	2.60	0	0	0	0	0	0	0
\$52	\$53	10.60	8.00	5.40	2.80	.20	0	0	0	0	0	0
\$53	\$54	10.80	8.20	5.60	3.00	.40	0	0	0	0	0	0
\$54	\$55	11.00	8.40	5.80	3.20	.70	0	0	0	0	0	0
\$55	\$56	11.20	8.60	6.00	3.50	.90	0	0	0	0	0	0
\$56	\$57	11.40	8.80	6.20	3.70	1.10	0	0	0	0	0	0
\$57	\$58	11.60	9.00	6.50	3.90	1.30	0	0	0	0	0	0
\$58	\$59	11.80	9.30	6.70	4.10	1.50	0	0	0	0	0	0
\$59	\$60	12.00	9.50	6.90	4.30	1.70	0	0	0	0	0	0
\$60	\$62	12.40	9.80	7.20	4.60	2.00	0	0	0	0	0	0
\$62	\$64	12.80	10.20	7.60	5.00	2.40	0	0	0	0	0	0
\$64	\$66	13.20	10.60	8.00	5.40	2.80	.20	0	0	0	0	0
\$66	\$68	13.60	11.00	8.40	5.80	3.20	.60	0	0	0	0	0
\$68	\$70	14.00	11.40	8.80	6.20	3.60	1.00	0	0	0	0	0
\$70	\$72	14.40	11.80	9.20	6.60	4.00	1.40	0	0	0	0	0
\$72	\$74	14.80	12.20	9.60	7.00	4.40	1.80	0	0	0	0	0
\$74	\$76	15.20	12.60	10.00	7.40	4.80	2.20	0	0	0	0	0
\$76	\$78	15.60	13.00	10.40	7.80	5.20	2.60	0	0	0	0	0
\$78	\$80	16.00	13.40	10.80	8.20	5.60	3.00	.40	0	0	0	0
\$80	\$82	16.40	13.80	11.20	8.60	6.00	3.40	.80	0	0	0	0
\$82	\$84	16.80	14.20	11.60	9.00	6.40	3.80	1.20	0	0	0	0
\$84	\$86	17.20	14.60	12.00	9.40	6.80	4.20	1.60	0	0	0	0
\$86	\$88	17.60	15.00	12.40	9.80	7.20	4.60	2.00	0	0	0	0
\$88	\$90	18.00	15.40	12.80	10.20	7.60	5.00	2.40	0	0	0	0
\$90	\$92	18.40	15.80	13.20	10.60	8.00	5.40	2.80	.30	0	0	0
\$92	\$94	18.80	16.20	13.60	11.00	8.40	5.80	3.20	.70	0	0	0
\$94	\$96	19.20	16.60	14.00	11.40	8.80	6.20	3.60	1.10	0	0	0
\$96	\$98	19.60	17.00	14.50	11.90	9.30	6.70	4.10	1.50	0	0	0
\$98	\$100	20.00	17.50	14.90	12.30	9.70	7.10	4.50	1.90	0	0	0
\$100	\$105	20.80	18.20	15.60	13.00	10.40	7.80	5.20	2.60	0	0	0
\$105	\$110	21.80	19.20	16.60	14.00	11.40	8.80	6.20	3.60	1.00	0	0
\$110	\$115	22.80	20.20	17.60	15.00	12.40	9.80	7.20	4.60	2.00	0	0
\$115	\$120	23.80	21.20	18.60	16.00	13.40	10.80	8.20	5.60	3.00	.40	0
\$120	\$125	24.80	22.20	19.60	17.00	14.40	11.80	9.20	6.60	4.00	1.40	0
\$125	\$130	25.80	23.20	20.60	18.00	15.40	12.80	10.20	7.60	5.00	2.50	0
\$130	\$135	26.80	24.20	21.60	19.00	16.40	13.90	11.30	8.70	6.10	3.50	.90
\$135	\$140	27.80	25.20	22.70	20.10	17.50	14.90	12.30	9.70	7.10	4.50	1.90
\$140	\$145	28.90	26.30	23.70	21.10	18.50	15.90	13.30	10.70	8.10	5.50	2.90
\$145	\$150	29.90	27.30	24.70	22.10	19.50	16.90	14.30	11.70	9.10	6.50	3.90
\$150	\$160	31.40	28.80	26.20	23.60	21.00	18.40	15.80	13.20	10.60	8.00	5.40
\$160	\$170	33.40	30.80	28.20	25.60	23.00	20.40	17.80	15.20	12.60	10.00	7.50
\$170	\$180	35.40	32.80	30.20	27.60	25.10	22.50	19.90	17.30	14.70	12.10	9.50
\$180	\$190	37.50	34.90	32.30	29.70	27.10	24.50	21.90	19.30	16.70	14.10	11.50
\$190	\$200	39.50	36.90	34.30	31.70	29.10	26.50	23.90	21.30	18.70	16.10	13.50
\$200 and over		20 percent of the excess over \$200 plus—										
		40.50	37.90	35.30	32.70	30.10	27.50	24.90	22.30	19.70	17.10	14.50

"If the payroll period with respect to an employee is biweekly

And the wages are—		And the number of withholding exemptions claimed is—										
At least	But less than	0	1	2	3	4	5	6	7	8	9	10 or more
The amount of tax to be withheld shall be—												
\$0.....	\$26.....	20% of wages	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
\$26.....	\$28.....	\$5.50	.30	0	0	0	0	0	0	0	0	0
\$28.....	\$30.....	5.90	.70	0	0	0	0	0	0	0	0	0
\$30.....	\$32.....	6.30	1.10	0	0	0	0	0	0	0	0	0
\$32.....	\$34.....	6.70	1.50	0	0	0	0	0	0	0	0	0
\$34.....	\$36.....	7.10	1.90	0	0	0	0	0	0	0	0	0
\$36.....	\$38.....	7.50	2.30	0	0	0	0	0	0	0	0	0
\$38.....	\$40.....	7.90	2.70	0	0	0	0	0	0	0	0	0
\$40.....	\$42.....	8.30	3.10	0	0	0	0	0	0	0	0	0
\$42.....	\$44.....	8.70	3.50	0	0	0	0	0	0	0	0	0
\$44.....	\$46.....	9.10	3.90	0	0	0	0	0	0	0	0	0
\$46.....	\$48.....	9.50	4.30	0	0	0	0	0	0	0	0	0
\$48.....	\$50.....	9.90	4.70	0	0	0	0	0	0	0	0	0
\$50.....	\$52.....	10.30	5.10	0	0	0	0	0	0	0	0	0
\$52.....	\$54.....	10.70	5.50	.30	0	0	0	0	0	0	0	0
\$54.....	\$56.....	11.10	5.90	.80	0	0	0	0	0	0	0	0
\$56.....	\$58.....	11.50	6.40	1.20	0	0	0	0	0	0	0	0
\$58.....	\$60.....	11.90	6.80	1.60	0	0	0	0	0	0	0	0
\$60.....	\$62.....	12.40	7.20	2.00	0	0	0	0	0	0	0	0
\$62.....	\$64.....	12.80	7.60	2.40	0	0	0	0	0	0	0	0
\$64.....	\$66.....	13.20	8.00	2.80	0	0	0	0	0	0	0	0
\$66.....	\$68.....	13.60	8.40	3.20	0	0	0	0	0	0	0	0
\$68.....	\$70.....	14.00	8.80	3.60	0	0	0	0	0	0	0	0
\$70.....	\$72.....	14.40	9.20	4.00	0	0	0	0	0	0	0	0
\$72.....	\$74.....	14.80	9.60	4.40	0	0	0	0	0	0	0	0
\$74.....	\$76.....	15.20	10.00	4.80	0	0	0	0	0	0	0	0
\$76.....	\$78.....	15.60	10.40	5.20	0	0	0	0	0	0	0	0
\$78.....	\$80.....	16.00	10.80	5.60	.40	0	0	0	0	0	0	0
\$80.....	\$82.....	16.40	11.20	6.00	.80	0	0	0	0	0	0	0
\$82.....	\$84.....	16.80	11.60	6.40	1.20	0	0	0	0	0	0	0
\$84.....	\$86.....	17.20	12.00	6.80	1.60	0	0	0	0	0	0	0
\$86.....	\$88.....	17.60	12.40	7.20	2.00	0	0	0	0	0	0	0
\$88.....	\$90.....	18.00	12.80	7.60	2.40	0	0	0	0	0	0	0
\$90.....	\$92.....	18.40	13.20	8.00	2.90	0	0	0	0	0	0	0
\$92.....	\$94.....	18.80	13.60	8.40	3.30	0	0	0	0	0	0	0
\$94.....	\$96.....	19.20	14.00	8.90	3.70	0	0	0	0	0	0	0
\$96.....	\$98.....	19.60	14.50	9.30	4.10	0	0	0	0	0	0	0
\$98.....	\$100.....	20.00	14.90	9.70	4.50	0	0	0	0	0	0	0
\$100.....	\$102.....	20.50	15.30	10.10	4.90	0	0	0	0	0	0	0
\$102.....	\$104.....	20.90	15.70	10.50	5.30	.10	0	0	0	0	0	0
\$104.....	\$106.....	21.30	16.10	10.90	5.70	.50	0	0	0	0	0	0
\$106.....	\$108.....	21.70	16.50	11.30	6.10	.90	0	0	0	0	0	0
\$108.....	\$110.....	22.10	16.90	11.70	6.50	1.30	0	0	0	0	0	0
\$110.....	\$112.....	22.50	17.30	12.10	6.90	1.70	0	0	0	0	0	0
\$112.....	\$114.....	22.90	17.70	12.50	7.30	2.10	0	0	0	0	0	0
\$114.....	\$116.....	23.30	18.10	12.90	7.70	2.50	0	0	0	0	0	0
\$116.....	\$118.....	23.70	18.50	13.30	8.10	2.90	0	0	0	0	0	0
\$118.....	\$120.....	24.10	18.90	13.70	8.50	3.30	0	0	0	0	0	0
\$120.....	\$124.....	24.70	19.50	14.30	9.10	3.90	0	0	0	0	0	0
\$124.....	\$128.....	25.50	20.30	15.10	9.90	4.70	0	0	0	0	0	0
\$128.....	\$132.....	26.30	21.10	15.90	10.70	5.60	.40	0	0	0	0	0
\$132.....	\$136.....	27.10	21.90	16.80	11.60	6.40	1.20	0	0	0	0	0
\$136.....	\$140.....	27.90	22.80	17.60	12.40	7.20	2.00	0	0	0	0	0
\$140.....	\$144.....	28.80	23.60	18.40	13.20	8.00	2.80	0	0	0	0	0
\$144.....	\$148.....	29.60	24.40	19.20	14.00	8.80	3.60	0	0	0	0	0
\$148.....	\$152.....	30.40	25.20	20.00	14.80	9.60	4.40	0	0	0	0	0
\$152.....	\$156.....	31.20	26.00	20.80	15.60	10.40	5.20	0	0	0	0	0
\$156.....	\$160.....	32.00	26.80	21.60	16.40	11.20	6.00	.80	0	0	0	0
\$160.....	\$164.....	32.80	27.60	22.40	17.20	12.00	6.80	1.70	0	0	0	0
\$164.....	\$168.....	33.60	28.40	23.20	18.00	12.80	7.70	2.50	0	0	0	0
\$168.....	\$172.....	34.40	29.20	24.00	18.80	13.70	8.50	3.30	0	0	0	0
\$172.....	\$176.....	35.20	30.00	24.90	19.70	14.50	9.30	4.10	0	0	0	0
\$176.....	\$180.....	36.00	30.90	25.70	20.50	15.30	10.10	4.90	0	0	0	0
\$180.....	\$184.....	36.90	31.70	26.50	21.30	16.10	10.90	5.70	.50	0	0	0
\$184.....	\$188.....	37.70	32.50	27.30	22.10	16.90	11.70	6.50	1.30	0	0	0
\$188.....	\$192.....	38.50	33.30	28.10	22.90	17.70	12.50	7.30	2.10	0	0	0
\$192.....	\$196.....	39.30	34.10	28.90	23.70	18.50	13.30	8.10	2.90	0	0	0
\$196.....	\$200.....	40.10	34.90	29.70	24.50	19.30	14.10	8.90	3.70	0	0	0
\$200.....	\$210.....	41.50	36.30	31.10	25.90	20.70	15.60	10.40	5.20	0	0	0
\$210.....	\$220.....	43.50	38.30	33.20	28.00	22.80	17.60	12.40	7.20	2.00	0	0
\$220.....	\$230.....	45.60	40.40	35.20	30.00	24.80	19.60	14.40	9.20	4.00	0	0
\$230.....	\$240.....	47.60	42.40	37.20	32.00	26.80	21.60	16.40	11.20	6.00	.90	0
\$240.....	\$250.....	49.60	44.40	39.20	34.00	28.80	23.70	18.50	13.30	8.10	2.90	0
\$250.....	\$260.....	51.60	46.40	41.30	36.10	30.90	25.70	20.50	15.30	10.10	4.90	0
\$260.....	\$270.....	53.70	48.50	43.30	38.10	32.90	27.70	22.50	17.30	12.10	6.90	1.70
\$270.....	\$280.....	55.70	50.50	45.30	40.10	34.90	29.70	24.50	19.30	14.10	9.00	3.80
\$280.....	\$290.....	57.70	52.50	47.30	42.10	36.90	31.80	26.60	21.40	16.20	11.00	5.80
\$290.....	\$300.....	59.70	54.50	49.40	44.20	39.00	33.80	28.60	23.40	18.20	13.00	7.80
\$300.....	\$320.....	62.80	57.60	52.40	47.20	42.00	36.80	31.60	26.40	21.20	16.00	10.90
\$320.....	\$340.....	66.80	61.60	56.40	51.20	46.10	40.90	35.70	30.50	25.30	20.10	14.90
\$340.....	\$360.....	70.90	65.70	60.50	55.30	50.10	44.90	39.70	34.50	29.30	24.10	19.00
\$360.....	\$380.....	74.90	69.70	64.50	59.30	54.20	49.00	43.80	38.60	33.40	28.20	23.00
\$380.....	\$400.....	79.00	73.80	68.60	63.40	58.20	53.00	47.80	42.60	37.40	32.20	27.10
\$400 and over.....		20 percent of the excess over \$400 plus—										
		81.00	75.80	70.60	65.40	60.20	55.00	49.80	44.70	39.50	34.30	29.10

“If the payroll period with respect to an employee is semimonthly

And the wages are—		And the number of withholding exemptions claimed is—										
At least	But less than	0	1	2	3	4	5	6	7	8	9	10 or more
The amount of tax to be withheld shall be—												
\$0.....	\$28.....	20% of wages \$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
\$28.....	\$30.....	\$5.90	.20	0	0	0	0	0	0	0	0	0
\$30.....	\$32.....	6.30	.70	0	0	0	0	0	0	0	0	0
\$32.....	\$34.....	6.70	1.10	0	0	0	0	0	0	0	0	0
\$34.....	\$36.....	7.10	1.50	0	0	0	0	0	0	0	0	0
\$36.....	\$38.....	7.50	1.90	0	0	0	0	0	0	0	0	0
\$38.....	\$40.....	7.90	2.30	0	0	0	0	0	0	0	0	0
\$40.....	\$42.....	8.30	2.70	0	0	0	0	0	0	0	0	0
\$42.....	\$44.....	8.70	3.10	0	0	0	0	0	0	0	0	0
\$44.....	\$46.....	9.10	3.50	0	0	0	0	0	0	0	0	0
\$46.....	\$48.....	9.50	3.90	0	0	0	0	0	0	0	0	0
\$48.....	\$50.....	9.90	4.30	0	0	0	0	0	0	0	0	0
\$50.....	\$52.....	10.30	4.70	0	0	0	0	0	0	0	0	0
\$52.....	\$54.....	10.70	5.10	0	0	0	0	0	0	0	0	0
\$54.....	\$56.....	11.10	5.50	0	0	0	0	0	0	0	0	0
\$56.....	\$58.....	11.50	5.90	.30	0	0	0	0	0	0	0	0
\$58.....	\$60.....	11.90	6.30	.70	0	0	0	0	0	0	0	0
\$60.....	\$62.....	12.40	6.70	1.10	0	0	0	0	0	0	0	0
\$62.....	\$64.....	12.80	7.10	1.50	0	0	0	0	0	0	0	0
\$64.....	\$66.....	13.20	7.50	1.90	0	0	0	0	0	0	0	0
\$66.....	\$68.....	13.60	7.90	2.30	0	0	0	0	0	0	0	0
\$68.....	\$70.....	14.00	8.30	2.70	0	0	0	0	0	0	0	0
\$70.....	\$72.....	14.40	8.80	3.10	0	0	0	0	0	0	0	0
\$72.....	\$74.....	14.80	9.20	3.50	0	0	0	0	0	0	0	0
\$74.....	\$76.....	15.20	9.60	3.90	0	0	0	0	0	0	0	0
\$76.....	\$78.....	15.60	10.00	4.30	0	0	0	0	0	0	0	0
\$78.....	\$80.....	16.00	10.40	4.70	0	0	0	0	0	0	0	0
\$80.....	\$82.....	16.40	10.80	5.20	0	0	0	0	0	0	0	0
\$82.....	\$84.....	16.80	11.20	5.60	0	0	0	0	0	0	0	0
\$84.....	\$86.....	17.20	11.60	6.00	.30	0	0	0	0	0	0	0
\$86.....	\$88.....	17.60	12.00	6.40	.70	0	0	0	0	0	0	0
\$88.....	\$90.....	18.00	12.40	6.80	1.10	0	0	0	0	0	0	0
\$90.....	\$92.....	18.40	12.80	7.20	1.60	0	0	0	0	0	0	0
\$92.....	\$94.....	18.80	13.20	7.60	2.00	0	0	0	0	0	0	0
\$94.....	\$96.....	19.20	13.60	8.00	2.40	0	0	0	0	0	0	0
\$96.....	\$98.....	19.60	14.00	8.40	2.80	0	0	0	0	0	0	0
\$98.....	\$100.....	20.00	14.40	8.80	3.20	0	0	0	0	0	0	0
\$100.....	\$102.....	20.50	14.80	9.20	3.60	0	0	0	0	0	0	0
\$102.....	\$104.....	20.90	15.20	9.60	4.00	0	0	0	0	0	0	0
\$104.....	\$106.....	21.30	15.60	10.00	4.40	0	0	0	0	0	0	0
\$106.....	\$108.....	21.70	16.00	10.40	4.80	0	0	0	0	0	0	0
\$108.....	\$110.....	22.10	16.40	10.80	5.20	0	0	0	0	0	0	0
\$110.....	\$112.....	22.50	16.90	11.20	5.60	0	0	0	0	0	0	0
\$112.....	\$114.....	22.90	17.30	11.60	6.00	.40	0	0	0	0	0	0
\$114.....	\$116.....	23.30	17.70	12.00	6.40	.80	0	0	0	0	0	0
\$116.....	\$118.....	23.70	18.10	12.40	6.80	1.20	0	0	0	0	0	0
\$118.....	\$120.....	24.10	18.50	12.80	7.20	1.60	0	0	0	0	0	0
\$120.....	\$124.....	24.70	19.10	13.50	7.80	2.20	0	0	0	0	0	0
\$124.....	\$128.....	25.50	19.90	14.30	8.60	3.00	0	0	0	0	0	0
\$128.....	\$132.....	26.30	20.70	15.10	9.50	3.80	0	0	0	0	0	0
\$132.....	\$136.....	27.10	21.50	15.90	10.30	4.60	0	0	0	0	0	0
\$136.....	\$140.....	27.90	22.30	16.70	11.10	5.40	0	0	0	0	0	0
\$140.....	\$144.....	28.80	23.10	17.50	11.90	6.30	.60	0	0	0	0	0
\$144.....	\$148.....	29.60	23.90	18.30	12.70	7.10	1.40	0	0	0	0	0
\$148.....	\$152.....	30.40	24.80	19.10	13.50	7.90	2.30	0	0	0	0	0
\$152.....	\$156.....	31.20	25.60	19.90	14.30	8.70	3.10	0	0	0	0	0
\$156.....	\$160.....	32.00	26.40	20.70	15.10	9.50	3.90	0	0	0	0	0
\$160.....	\$164.....	32.80	27.20	21.60	15.90	10.30	4.70	0	0	0	0	0
\$164.....	\$168.....	33.60	28.00	22.40	16.70	11.10	5.50	0	0	0	0	0
\$168.....	\$172.....	34.40	28.80	23.20	17.60	11.90	6.30	.70	0	0	0	0
\$172.....	\$176.....	35.20	29.60	24.00	18.40	12.70	7.10	1.50	0	0	0	0
\$176.....	\$180.....	36.00	30.40	24.80	19.20	13.50	7.90	2.30	0	0	0	0
\$180.....	\$184.....	36.90	31.20	25.60	20.00	14.40	8.70	3.10	0	0	0	0
\$184.....	\$188.....	37.70	32.00	26.40	20.80	15.20	9.50	3.90	0	0	0	0
\$188.....	\$192.....	38.50	32.90	27.20	21.60	16.00	10.40	4.70	0	0	0	0
\$192.....	\$196.....	39.30	33.70	28.00	22.40	16.80	11.20	5.50	0	0	0	0
\$196.....	\$200.....	40.10	34.50	28.80	23.20	17.60	12.00	6.30	.70	0	0	0
\$200.....	\$210.....	41.50	35.90	30.30	24.60	19.00	13.40	7.80	2.10	0	0	0
\$210.....	\$220.....	43.50	37.90	32.30	26.70	21.00	15.40	9.80	4.20	0	0	0
\$220.....	\$230.....	45.60	39.90	34.30	28.70	23.10	17.40	11.80	6.20	.60	0	0
\$230.....	\$240.....	47.60	42.00	36.30	30.70	25.10	19.50	13.80	8.20	2.60	0	0
\$240.....	\$250.....	49.60	44.00	38.40	32.70	27.10	21.50	15.90	10.20	4.60	0	0
\$250.....	\$260.....	51.60	46.00	40.40	34.80	29.10	23.50	17.90	12.30	6.60	1.00	0
\$260.....	\$270.....	53.70	48.00	42.40	36.80	31.20	25.50	19.90	14.30	8.70	3.00	0
\$270.....	\$280.....	55.70	50.10	44.40	38.80	33.20	27.60	21.90	16.30	10.70	5.10	0
\$280.....	\$290.....	57.70	52.10	46.50	40.80	35.20	29.60	24.00	18.30	12.70	7.10	1.50
\$290.....	\$300.....	59.70	54.10	48.50	42.90	37.20	31.60	26.00	20.40	14.70	9.10	3.50
\$300.....	\$320.....	62.80	57.20	51.50	45.90	40.30	34.70	29.00	23.40	17.80	12.20	6.50
\$320.....	\$340.....	66.80	61.20	55.60	50.00	44.30	38.70	33.10	27.50	21.80	16.20	10.60
\$340.....	\$360.....	70.90	65.30	59.60	54.00	48.40	42.80	37.10	31.50	25.90	20.30	14.60
\$360.....	\$380.....	74.90	69.30	63.70	58.10	52.40	46.80	41.20	35.60	29.90	24.30	18.70
\$380.....	\$400.....	79.00	73.40	67.70	62.10	56.50	50.90	45.20	39.60	34.00	28.40	22.70
\$400.....	\$420.....	83.00	77.40	71.80	66.20	60.50	54.90	49.30	43.70	38.00	32.40	26.80
\$420.....	\$440.....	87.10	81.50	75.80	70.20	64.60	59.00	53.30	47.70	42.10	36.50	30.80
\$440.....	\$460.....	91.10	85.50	79.90	74.30	68.60	63.00	57.40	51.80	46.10	40.50	34.90
\$460.....	\$480.....	95.20	89.60	83.90	78.30	72.70	67.10	61.40	55.80	50.20	44.60	38.90
\$480.....	\$500.....	99.20	93.60	88.00	82.40	76.70	71.10	65.50	59.90	54.20	48.60	43.00
\$500 and over.....		20 percent of the excess over \$500 plus—										
		101.30	95.60	90.00	84.40	78.80	73.10	67.50	61.90	56.30	50.60	45.00

"If the payroll period with respect to an employee is monthly

And the wages are—		And the number of withholding exemptions claimed is—										
At least	But less than	0	1	2	3	4	5	6	7	8	9	10 or more
The amount of tax to be withheld shall be—												
\$0.....	\$56.....	20% of wages	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
\$56.....	\$60.....	\$11.70	.50	0	0	0	0	0	0	0	0	0
\$60.....	\$64.....	12.60	1.30	0	0	0	0	0	0	0	0	0
\$64.....	\$68.....	13.40	2.10	0	0	0	0	0	0	0	0	0
\$68.....	\$72.....	14.20	2.90	0	0	0	0	0	0	0	0	0
\$72.....	\$76.....	15.00	3.70	0	0	0	0	0	0	0	0	0
\$76.....	\$80.....	15.80	4.50	0	0	0	0	0	0	0	0	0
\$80.....	\$84.....	16.60	5.40	0	0	0	0	0	0	0	0	0
\$84.....	\$88.....	17.40	6.20	0	0	0	0	0	0	0	0	0
\$88.....	\$92.....	18.20	7.00	0	0	0	0	0	0	0	0	0
\$92.....	\$96.....	19.00	7.80	0	0	0	0	0	0	0	0	0
\$96.....	\$100.....	19.80	8.60	0	0	0	0	0	0	0	0	0
\$100.....	\$104.....	20.70	9.40	0	0	0	0	0	0	0	0	0
\$104.....	\$108.....	21.50	10.20	0	0	0	0	0	0	0	0	0
\$108.....	\$112.....	22.30	11.00	0	0	0	0	0	0	0	0	0
\$112.....	\$116.....	23.10	11.80	.60	0	0	0	0	0	0	0	0
\$116.....	\$120.....	23.90	12.60	1.40	0	0	0	0	0	0	0	0
\$120.....	\$124.....	24.70	13.50	2.20	0	0	0	0	0	0	0	0
\$124.....	\$128.....	25.50	14.30	3.00	0	0	0	0	0	0	0	0
\$128.....	\$132.....	26.30	15.10	3.80	0	0	0	0	0	0	0	0
\$132.....	\$136.....	27.10	15.90	4.60	0	0	0	0	0	0	0	0
\$136.....	\$140.....	27.90	16.70	5.40	0	0	0	0	0	0	0	0
\$140.....	\$144.....	28.80	17.50	6.30	0	0	0	0	0	0	0	0
\$144.....	\$148.....	29.60	18.30	7.10	0	0	0	0	0	0	0	0
\$148.....	\$152.....	30.40	19.10	7.90	0	0	0	0	0	0	0	0
\$152.....	\$156.....	31.20	19.90	8.70	0	0	0	0	0	0	0	0
\$156.....	\$160.....	32.00	20.70	9.50	0	0	0	0	0	0	0	0
\$160.....	\$164.....	32.80	21.60	10.30	0	0	0	0	0	0	0	0
\$164.....	\$168.....	33.60	22.40	11.10	0	0	0	0	0	0	0	0
\$168.....	\$172.....	34.40	23.20	11.90	.70	0	0	0	0	0	0	0
\$172.....	\$176.....	35.20	24.00	12.70	1.50	0	0	0	0	0	0	0
\$176.....	\$180.....	36.00	24.80	13.50	2.30	0	0	0	0	0	0	0
\$180.....	\$184.....	36.90	25.60	14.40	3.10	0	0	0	0	0	0	0
\$184.....	\$188.....	37.70	26.40	15.20	3.90	0	0	0	0	0	0	0
\$188.....	\$192.....	38.50	27.20	16.00	4.70	0	0	0	0	0	0	0
\$192.....	\$196.....	39.30	28.00	16.80	5.50	0	0	0	0	0	0	0
\$196.....	\$200.....	40.10	28.80	17.60	6.30	0	0	0	0	0	0	0
\$200.....	\$204.....	40.90	29.70	18.40	7.20	0	0	0	0	0	0	0
\$204.....	\$208.....	41.70	30.50	19.20	8.00	0	0	0	0	0	0	0
\$208.....	\$212.....	42.50	31.30	20.00	8.80	0	0	0	0	0	0	0
\$212.....	\$216.....	43.30	32.10	20.80	9.60	0	0	0	0	0	0	0
\$216.....	\$220.....	44.10	32.90	21.60	10.40	0	0	0	0	0	0	0
\$220.....	\$224.....	45.00	33.70	22.50	11.20	0	0	0	0	0	0	0
\$224.....	\$228.....	45.80	34.50	23.30	12.00	.80	0	0	0	0	0	0
\$228.....	\$232.....	46.60	35.30	24.10	12.80	1.60	0	0	0	0	0	0
\$232.....	\$236.....	47.40	36.10	24.90	13.60	2.40	0	0	0	0	0	0
\$236.....	\$240.....	48.20	36.90	25.70	14.40	3.20	0	0	0	0	0	0
\$240.....	\$248.....	49.40	38.20	26.90	15.70	4.40	0	0	0	0	0	0
\$248.....	\$256.....	51.00	39.80	28.50	17.30	6.00	0	0	0	0	0	0
\$256.....	\$264.....	52.70	41.40	30.20	18.90	7.70	0	0	0	0	0	0
\$264.....	\$272.....	54.30	43.00	31.80	20.50	9.30	0	0	0	0	0	0
\$272.....	\$280.....	55.90	44.60	33.40	22.10	10.90	0	0	0	0	0	0
\$280.....	\$288.....	57.50	46.30	35.00	23.80	12.50	1.30	0	0	0	0	0
\$288.....	\$296.....	59.10	47.90	36.60	25.40	14.10	2.90	0	0	0	0	0
\$296.....	\$304.....	60.80	49.50	38.30	27.00	15.80	4.50	0	0	0	0	0
\$304.....	\$312.....	62.40	51.10	39.90	28.60	17.40	6.10	0	0	0	0	0
\$312.....	\$320.....	64.00	52.70	41.50	30.20	19.00	7.70	0	0	0	0	0
\$320.....	\$328.....	65.60	54.40	43.10	31.90	20.60	9.40	0	0	0	0	0
\$328.....	\$336.....	67.20	56.00	44.70	33.50	22.20	11.00	0	0	0	0	0
\$336.....	\$344.....	68.90	57.60	46.40	35.10	23.90	12.60	1.40	0	0	0	0
\$344.....	\$352.....	70.50	59.20	48.00	36.70	25.50	14.20	3.00	0	0	0	0
\$352.....	\$360.....	72.10	60.80	49.60	38.30	27.10	15.80	4.60	0	0	0	0
\$360.....	\$368.....	73.70	62.50	51.20	40.00	28.70	17.50	6.20	0	0	0	0
\$368.....	\$376.....	75.30	64.10	52.80	41.60	30.30	19.10	7.80	0	0	0	0
\$376.....	\$384.....	77.00	65.70	54.50	43.20	32.00	20.70	9.50	0	0	0	0
\$384.....	\$392.....	78.60	67.30	56.10	44.80	33.60	22.30	11.10	0	0	0	0
\$392.....	\$400.....	80.20	68.90	57.70	46.40	35.20	23.90	12.70	1.40	0	0	0
\$400.....	\$420.....	83.00	71.80	60.50	49.30	38.00	26.80	15.50	4.30	0	0	0
\$420.....	\$440.....	87.10	75.80	64.60	53.30	42.10	30.80	19.60	8.30	0	0	0
\$440.....	\$460.....	91.10	79.90	68.60	57.40	46.10	34.90	23.60	12.40	1.10	0	0
\$460.....	\$480.....	95.20	83.90	72.70	61.40	50.20	38.90	27.70	16.40	5.20	0	0
\$480.....	\$500.....	99.20	88.00	76.70	65.50	54.20	43.00	31.70	20.50	9.20	0	0
\$500.....	\$520.....	103.30	92.00	80.80	69.50	58.30	47.00	35.80	24.50	13.30	2.00	0
\$520.....	\$540.....	107.30	96.10	84.80	73.60	62.30	51.10	39.80	28.60	17.30	6.10	0
\$540.....	\$560.....	111.40	100.10	88.90	77.60	66.40	55.10	43.90	32.60	21.40	10.10	0
\$560.....	\$580.....	115.40	104.20	92.90	81.70	70.40	59.20	47.90	36.70	25.40	14.20	2.90
\$580.....	\$600.....	119.50	108.20	97.00	85.70	74.50	63.20	52.00	40.70	29.50	18.20	7.00
\$600.....	\$640.....	125.60	114.30	103.10	91.80	80.60	69.30	58.10	46.80	35.60	24.30	13.10
\$640.....	\$680.....	133.70	122.40	111.20	99.90	88.70	77.40	66.20	54.90	43.70	32.40	21.20
\$680.....	\$720.....	141.80	130.50	119.30	108.00	96.80	85.50	74.30	63.00	51.80	40.50	29.30
\$720.....	\$760.....	149.90	138.60	127.40	116.10	104.90	93.60	82.40	71.10	59.90	48.60	37.40
\$760.....	\$800.....	158.00	146.70	135.50	124.20	113.00	101.70	90.50	79.20	68.00	56.70	45.50
\$800.....	\$840.....	166.10	154.80	143.60	132.30	121.10	109.80	98.60	87.30	76.10	64.80	53.60
\$840.....	\$880.....	174.20	162.90	151.70	140.40	129.20	117.90	106.70	95.40	84.20	72.90	61.70
\$880.....	\$920.....	182.30	171.00	159.80	148.50	137.30	126.00	114.80	103.50	92.30	81.00	69.80
\$920.....	\$960.....	190.40	179.10	167.90	156.60	145.40	134.10	122.90	111.60	100.40	89.10	77.90
\$960.....	\$1,000.....	198.50	187.20	176.00	164.70	153.50	142.20	131.00	119.70	108.50	97.20	86.00
\$1,000 and over.....		20 percent of the excess over \$1,000 plus—										
		202.50	191.30	180.00	168.80	157.50	146.30	135.00	123.80	112.50	101.30	90.00

“If the payroll period with respect to an employee is a daily payroll period or a miscellaneous payroll period

And the wages divided by the number of days in such period are—		And the number of withholding exemptions claimed is—										
		0	1	2	3	4	5	6	7	8	9	10 or more
At least	But less than	The amount of tax to be withheld shall be the following amount multiplied by the number of days in such period—										
\$0	\$2.00	20% of wages	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
\$2.00	\$2.25	\$0.45	.05	0	0	0	0	0	0	0	0	0
\$2.25	\$2.50	.50	.10	0	0	0	0	0	0	0	0	0
\$2.50	\$2.75	.55	.15	0	0	0	0	0	0	0	0	0
\$2.75	\$3.00	.60	.20	0	0	0	0	0	0	0	0	0
\$3.00	\$3.25	.65	.25	0	0	0	0	0	0	0	0	0
\$3.25	\$3.50	.70	.30	0	0	0	0	0	0	0	0	0
\$3.50	\$3.75	.75	.35	0	0	0	0	0	0	0	0	0
\$3.75	\$4.00	.80	.40	.05	0	0	0	0	0	0	0	0
\$4.00	\$4.25	.85	.45	.10	0	0	0	0	0	0	0	0
\$4.25	\$4.50	.90	.50	.15	0	0	0	0	0	0	0	0
\$4.50	\$4.75	.95	.55	.20	0	0	0	0	0	0	0	0
\$4.75	\$5.00	1.00	.60	.25	0	0	0	0	0	0	0	0
\$5.00	\$5.25	1.05	.65	.30	0	0	0	0	0	0	0	0
\$5.25	\$5.50	1.10	.70	.35	0	0	0	0	0	0	0	0
\$5.50	\$5.75	1.15	.75	.40	.05	0	0	0	0	0	0	0
\$5.75	\$6.00	1.20	.80	.45	.10	0	0	0	0	0	0	0
\$6.00	\$6.25	1.25	.85	.50	.15	0	0	0	0	0	0	0
\$6.25	\$6.50	1.30	.90	.55	.20	0	0	0	0	0	0	0
\$6.50	\$6.75	1.35	.95	.60	.25	0	0	0	0	0	0	0
\$6.75	\$7.00	1.40	1.00	.65	.30	0	0	0	0	0	0	0
\$7.00	\$7.25	1.45	1.05	.70	.35	0	0	0	0	0	0	0
\$7.25	\$7.50	1.50	1.10	.75	.40	0	0	0	0	0	0	0
\$7.50	\$7.75	1.55	1.15	.80	.45	.05	0	0	0	0	0	0
\$7.75	\$8.00	1.60	1.20	.85	.50	.10	0	0	0	0	0	0
\$8.00	\$8.25	1.65	1.30	.90	.55	.15	0	0	0	0	0	0
\$8.25	\$8.50	1.70	1.35	.95	.60	.20	0	0	0	0	0	0
\$8.50	\$8.75	1.75	1.40	1.00	.65	.25	0	0	0	0	0	0
\$8.75	\$9.00	1.80	1.45	1.05	.70	.30	0	0	0	0	0	0
\$9.00	\$9.25	1.85	1.50	1.10	.75	.35	0	0	0	0	0	0
\$9.25	\$9.50	1.90	1.55	1.15	.80	.40	.05	0	0	0	0	0
\$9.50	\$9.75	1.95	1.60	1.20	.85	.45	.10	0	0	0	0	0
\$9.75	\$10.00	2.00	1.65	1.25	.90	.50	.15	0	0	0	0	0
\$10.00	\$10.50	2.10	1.70	1.35	.95	.60	.25	0	0	0	0	0
\$10.50	\$11.00	2.20	1.80	1.45	1.05	.70	.35	0	0	0	0	0
\$11.00	\$11.50	2.30	1.90	1.55	1.15	.80	.45	.05	0	0	0	0
\$11.50	\$12.00	2.40	2.00	1.65	1.25	.90	.55	.15	0	0	0	0
\$12.00	\$12.50	2.50	2.10	1.75	1.35	1.00	.65	.25	0	0	0	0
\$12.50	\$13.00	2.60	2.20	1.85	1.45	1.10	.75	.35	0	0	0	0
\$13.00	\$13.50	2.70	2.30	1.95	1.55	1.20	.85	.45	.10	0	0	0
\$13.50	\$14.00	2.80	2.40	2.05	1.65	1.30	.95	.55	.20	0	0	0
\$14.00	\$14.50	2.90	2.50	2.15	1.80	1.40	1.05	.65	.30	0	0	0
\$14.50	\$15.00	3.00	2.60	2.25	1.90	1.50	1.15	.75	.40	.05	0	0
\$15.00	\$15.50	3.10	2.70	2.35	2.00	1.60	1.25	.85	.50	.15	0	0
\$15.50	\$16.00	3.20	2.80	2.45	2.10	1.70	1.35	.95	.60	.25	0	0
\$16.00	\$16.50	3.30	2.90	2.55	2.20	1.80	1.45	1.05	.70	.35	0	0
\$16.50	\$17.00	3.40	3.00	2.65	2.30	1.90	1.55	1.15	.80	.45	.05	0
\$17.00	\$17.50	3.50	3.10	2.75	2.40	2.00	1.65	1.25	.90	.55	.15	0
\$17.50	\$18.00	3.60	3.20	2.85	2.50	2.10	1.75	1.40	1.00	.65	.25	0
\$18.00	\$18.50	3.70	3.35	2.95	2.60	2.20	1.85	1.50	1.10	.75	.35	0
\$18.50	\$19.00	3.80	3.45	3.05	2.70	2.30	1.95	1.60	1.20	.85	.45	.10
\$19.00	\$19.50	3.90	3.55	3.15	2.80	2.40	2.05	1.70	1.30	.95	.55	.20
\$19.50	\$20.00	4.00	3.65	3.25	2.90	2.50	2.15	1.80	1.40	1.05	.65	.30
\$20.00	\$21.00	4.15	3.80	3.40	3.05	2.65	2.30	1.95	1.55	1.20	.80	.45
\$21.00	\$22.00	4.35	4.00	3.60	3.25	2.85	2.50	2.15	1.75	1.40	1.00	.65
\$22.00	\$23.00	4.55	4.20	3.80	3.45	3.10	2.70	2.35	1.95	1.60	1.25	.85
\$23.00	\$24.00	4.75	4.40	4.00	3.65	3.30	2.90	2.55	2.15	1.80	1.45	1.05
\$24.00	\$25.00	4.95	4.60	4.20	3.85	3.50	3.10	2.75	2.35	2.00	1.65	1.25
\$25.00	\$26.00	5.15	4.80	4.40	4.05	3.70	3.30	2.95	2.55	2.20	1.85	1.45
\$26.00	\$27.00	5.35	5.00	4.65	4.25	3.90	3.50	3.15	2.80	2.40	2.05	1.65
\$27.00	\$28.00	5.55	5.20	4.85	4.45	4.10	3.70	3.35	3.00	2.60	2.25	1.85
\$28.00	\$29.00	5.75	5.40	5.05	4.65	4.30	3.90	3.55	3.20	2.80	2.45	2.05
\$29.00	\$30.00	5.95	5.60	5.25	4.85	4.50	4.10	3.75	3.40	3.00	2.65	2.30
\$30 and over		20 percent of the excess over \$30 plus—										
		6.10	5.70	5.35	4.95	4.60	4.25	3.85	3.50	3.10	2.75	2.40"

1 **SEC. 223. ADDITIONAL WITHHOLDING OF TAX ON WAGES**
2 **UPON AGREEMENT BY EMPLOYER AND EM-**
3 **PLOYEE.**

4 Section 1622 (relating to income tax collected at source
5 on wages) is hereby amended by adding at the end thereof
6 the following new subsection:

7 “(k) **ADDITIONAL WITHHOLDING.**—The Secretary is
8 authorized by regulations to provide, under such conditions
9 and to such extent as he deems proper, for withholding in
10 addition to that otherwise required under this section in cases
11 in which the employer and the employee agree (in such
12 form as the Secretary may by regulations prescribe) to such
13 additional withholding. Such additional withholding shall
14 for all purposes be considered tax required to be deducted
15 and withheld under this subchapter.”

16 **SEC. 224. EFFECTIVE DATE.**

17 The amendments made by this part shall be applicable
18 only with respect to wages paid on or after September 1,
19 1951.

1 **TITLE III—MISCELLANEOUS INCOME TAX**
2 **AMENDMENTS**

3 **SEC. 301. TAX TREATMENT IN CASE OF HEAD OF HOUSE-**
4 **HOLD.**

5 (a) **SURTAX IN CASE OF HEAD OF HOUSEHOLD.**—Sec-
6 tion 12 (c) is hereby amended to read as follows:

7 “(c) **HEAD OF HOUSEHOLD.**—

8 “(1) **RATES OF SURTAX.**—In the case of taxable
9 years beginning after August 31, 1951, there shall be
10 levied, collected, and paid for each taxable year upon
11 the surtax net income of every individual who is the
12 head of a household the surtax shown in the following
13 table:

If the surtax net income is:	The surtax shall be:
Not over \$2,000-----	17% of the surtax net income.
Over \$2,000 but not over \$4,000---	\$340, plus 18% of excess over \$2,000.
Over \$4,000 but not over \$6,000---	\$700, plus 21% of excess over \$4,000.
Over \$6,000 but not over \$8,000---	\$1,120, plus 23% of excess over \$6,000.
Over \$8,000 but not over \$10,000--	\$1,580, plus 27% of excess over \$8,000.
Over \$10,000 but not over \$12,000-	\$2,120, plus 29% of excess over \$10,000.
Over \$12,000 but not over \$14,000-	\$2,700, plus 33% of excess over \$12,000.
Over \$14,000 but not over \$16,000-	\$3,360, plus 36% of excess over \$14,000.
Over \$16,000 but not over \$18,000-	\$4,080, plus 39% of excess over \$16,000.
Over \$18,000 but not over \$20,000-	\$4,860, plus 40% of excess over \$18,000.
Over \$20,000 but not over \$22,000-	\$5,660, plus 44% of excess over \$20,000.
Over \$22,000 but not over \$24,000-	\$6,540, plus 46% of excess over \$22,000.
Over \$24,000 but not over \$26,000-	\$7,460, plus 48% of excess over \$24,000.

If the surtax net income is:	The surtax shall be:
Over \$26,000 but not over \$28,000_	\$8,420, plus 49% of excess over \$26,000.
Over \$28,000 but not over \$32,000_	\$9,400, plus 52% of excess over \$28,000.
Over \$32,000 but not over \$36,000_	\$11,480, plus 54% of excess over \$32,000.
Over \$36,000 but not over \$40,000_	\$13,640, plus 57% of excess over \$36,000.
Over \$40,000 but not over \$44,000_	\$15,920, plus 60% of excess over \$40,000.
Over \$44,000 but not over \$50,000_	\$18,320, plus 62% of excess over \$44,000.
Over \$50,000 but not over \$60,000_	\$22,040, plus 65% of excess over \$50,000.
Over \$60,000 but not over \$70,000_	\$28,540, plus 68% of excess over \$60,000.
Over \$70,000 but not over \$80,000_	\$35,340, plus 71% of excess over \$70,000.
Over \$80,000 but not over \$90,000_	\$42,440, plus 74% of excess over \$80,000.
Over \$90,000 but not over \$100,000_	\$49,840, plus 76% of excess over \$90,000.
Over \$100,000 but not over \$120,000_	\$57,440, plus 79% of excess over \$100,000.
Over \$120,000 but not over \$150,000_	\$73,240, plus 81% of excess over \$120,000.
Over \$150,000 but not over \$160,000_	\$97,540, plus 83% of excess over \$150,000.
Over \$160,000 but not over \$180,000_	\$105,840, plus 84% of excess over \$160,000.
Over \$180,000 but not over \$200,000_	\$122,640, plus 85% of excess over \$180,000.
Over \$200,000 but not over \$300,000_	\$139,640, plus 87% of excess over \$200,000.
Over \$300,000 -----	\$226,640, plus 88% of excess over \$300,000.

1 In the case of the head of a household whose surtax
2 net income for the taxable year is over \$90,000, this
3 paragraph shall not apply if the defense tax provided in
4 section 16 is applicable to such taxable year. For per-
5 centage increase in the amount of tax imposed by this
6 subsection, see section 16.

7 “(2) SURTAX NET INCOME OVER \$90,000.—In
8 the case of a taxable year beginning after August 31,

1 1951, to which the defense tax provided in section 16
 2 is applicable, if the surtax net income for the taxable
 3 year of an individual who is the head of a household
 4 is over \$90,000, there shall be levied, collected, and
 5 paid for such taxable year upon the surtax net income
 6 of such individual the surtax shown in the following
 7 table:

If the surtax net income is:				The surtax shall be:	
Over \$90,000	but not	over	\$100,000.	\$49,840, plus 75%	of excess over \$90,000.
Over \$100,000	but not	over	\$120,000.	\$57,340, plus 76%	of excess over \$100,000.
Over \$120,000	but not	over	\$140,000.	\$72,540, plus 78%	of excess over \$120,000.
Over \$140,000	but not	over	\$160,000.	\$88,140, plus 80%	of excess over \$140,000.
Over \$160,000	-----			\$104,140, plus 81%	of excess over \$160,000.

8 “(3) DEFINITION OF HEAD OF HOUSEHOLD.—For
 9 the purposes of this chapter, an individual shall be
 10 considered a head of a household if, and only if, such
 11 individual is not married at the close of his taxable year
 12 and maintains as his home a household which constitutes
 13 for such taxable year the principal place of abode, as a
 14 member of such household, of:

15 “(A) A son or daughter (including a stepson
 16 or stepdaughter) of the taxpayer, or a descendant
 17 of such son or daughter, but if such son, daughter,
 18 or descendant is married at the close of the tax-
 19 payer’s taxable year, only if the taxpayer is en-

1 titled to an exemption for the taxable year for such
2 person under section 25 (b) ; or

3 “(B) Any other person who is a dependent
4 of the taxpayer, if the taxpayer is entitled to an
5 exemption for the taxable year for such person
6 under section 25 (b) .

7 An individual shall be considered as maintaining a house-
8 hold only if over half of the cost of maintaining the
9 household during the taxable year is furnished by such
10 individual.

11 “(4) DETERMINATION OF STATUS.—For the pur-
12 poses of this subsection—

13 “(A) a legally adopted child of a person shall
14 be considered a child of such person by blood;

15 “(B) an individual who is legally separated
16 from his spouse under a decree of divorce or of
17 separate maintenance shall not be considered as
18 married;

19 “(C) a taxpayer shall be considered as not
20 married at the close of his taxable year if at any
21 time during the taxable year his spouse is a non-
22 resident alien; and

23 “(D) a taxpayer shall be considered as married
24 at the close of his taxable year if his spouse (other

1 than a spouse described in subparagraph (C)) died
2 during the taxable year.

3 “(5) NONRESIDENT ALIEN.—For the purposes of
4 this chapter a taxpayer shall in no case be considered
5 a head of a household if at any time during the taxable
6 year he is a nonresident alien.”

7 (b) EFFECTIVE DATE.—The amendment made by sub-
8 section (a) shall be applicable only with respect to taxable
9 years beginning after August 31, 1951.

10 **SEC. 302. EXPENDITURES IN THE DEVELOPMENT OF**
11 **MINES.**

12 (a) DEDUCTION OF EXPENDITURES.—Section 23 (a)
13 (1) (relating to deductions from gross income) is hereby
14 amended by adding at the end thereof the following new
15 subparagraph:

16 “(D) DEVELOPMENT OF MINES.—Expendi-
17 tures paid or incurred after December 31, 1950, in
18 the development of a mine or other natural deposit
19 (other than an oil or gas well), to the extent paid
20 or incurred after the existence of ores or minerals
21 in commercially marketable quantities has been
22 disclosed, shall be deductible, on a ratable basis, as
23 the units of produced ores or minerals benefited by
24 such expenditures are sold. Such expenditures, and
25 the adjustments to basis provided in section 113

(b) (1) (J), shall not be taken into account in determining the adjusted basis of the property for the purpose of computing depletion under section 114. This subparagraph shall not apply to expenditures for the acquisition or improvement of property of a character which is subject to the allowance for depreciation provided in section 23 (1). For purposes of this subparagraph, allowances for depreciation shall be considered as expenditures.”

(b) ADJUSTED BASIS FOR DETERMINING GAIN OR LOSS UPON SALE OR EXCHANGE.—Section 113 (b) (1) (relating to adjusted basis of property) is hereby amended by adding at the end thereof the following subparagraph:

“(J) for amounts allowed as deductions under section 23 (a) (1) (D) (relating to certain expenditures in the development of mines) and resulting in a reduction of the taxpayer’s taxes under this chapter, but not less than the amounts allowable under such section for the taxable year and prior years.”

(c) TECHNICAL AMENDMENT.—Section 24 (a) (2) (relating to items not deductible) is hereby amended by adding after the word “estate” the following: “, except expenditures for the development of mines or deposits deductible under section 23 (a) (1) (D)”.

1 (d) **EFFECTIVE DATE.**—The amendments made by this
2 section shall be applicable to taxable years ending after
3 December 31, 1950.

4 **SEC. 303. GAIN FROM SALE OR EXCHANGE OF TAXPAYER'S**
5 **RESIDENCE.**

6 (a) **NONRECOGNITION OF GAIN IN CERTAIN CASES.**—
7 Section 112 (relating to recognition of gain or loss) is hereby
8 amended by adding at the end thereof the following new
9 subsection:

10 “(n) **GAIN FROM SALE OR EXCHANGE OF RESI-**
11 **DENCE.**—

12 “(1) **NONRECOGNITION OF GAIN.**—If property
13 (hereinafter in this subsection called ‘old residence’)
14 used by the taxpayer as his principal residence is sold
15 by him and, within a period beginning one year prior
16 to the date of such sale and ending one year after such
17 date, property (hereinafter in this subsection called ‘new
18 residence’) is purchased and used by the taxpayer as
19 his principal residence, gain (if any) from such sale
20 shall be recognized only to the extent that the taxpayer’s
21 selling price of the old residence exceeds the taxpayer’s
22 cost of purchasing the new residence.

23 “(2) **RULES FOR APPLICATION OF SUBSECTION.**—
24 For the purposes of this subsection:

25 “(A) An exchange by the taxpayer of his

1 residence for other property shall be considered as
2 a sale of such residence, and the acquisition of a
3 residence upon the exchange of property shall be
4 considered as a purchase of such residence.

5 “(B) If the taxpayer’s residence (as a result
6 of its destruction in whole or in part, theft, or
7 seizure) is compulsorily or involuntarily converted
8 into property or into money, such destruction, theft,
9 or seizure shall be considered as a sale of the resi-
10 dence; and if the residence is so converted into
11 property which is used by the taxpayer as his resi-
12 dence, such conversion shall be considered as a
13 purchase of such property by the taxpayer.

14 “(C) In the case of an exchange or conversion
15 described in subparagraph (A) or (B), in deter-
16 mining the extent to which the selling price of the
17 old residence exceeds the taxpayer’s cost of purchas-
18 ing the new residence, the amount realized by the
19 taxpayer upon such exchange or conversion shall be
20 considered the selling price of the old residence.

21 “(D) A residence any part of which was con-
22 structed or reconstructed by the taxpayer shall be
23 considered as purchased by the taxpayer. In de-
24 termining the taxpayer’s cost of purchasing a resi-
25 dence, there shall be included only so much of his

1 cost as is attributable to the acquisition, construc-
2 tion, reconstruction, and improvements made which
3 are properly chargeable to capital account, during
4 the period specified in paragraph (1).

5 “(E) If a residence is purchased by the tax-
6 payer prior to the date of his sale of the old resi-
7 dence, the purchased residence shall not be
8 treated as his new residence if sold or otherwise
9 disposed of by him prior to the date of the sale of
10 the old residence.

11 “(F) If the taxpayer, during the period de-
12 scribed in paragraph (1), purchases more than one
13 residence which is used by him as his principal
14 residence at some time within one year after the date
15 of the sale of the old residence, only the last of such
16 residences so used by him after the date of such
17 sale shall constitute the new residence. If within
18 the one year referred to in the preceding sentence
19 property used by the taxpayer as his principal resi-
20 dence is destroyed, stolen, seized, requisitioned, or
21 condemned, or is sold or exchanged under threat
22 or imminence thereof, then for the purposes of
23 the preceding sentence such one year shall be con-

sidered as ending with the date of such destruction, theft, seizure, requisition, condemnation, sale, or exchange.

“(3) LIMITATION.—The provisions of paragraph (1) shall not be applicable with respect to the sale of the taxpayer’s residence if within one year prior to the date of such sale the taxpayer sold at a gain other property used by him as his principal residence, and any part of such gain was not recognized by reason of the provisions of paragraph (1). For the purposes of this paragraph, the destruction, theft, seizure, requisition, or condemnation of property or the sale or exchange of property under threat or imminence thereof, shall not be considered as a sale of such property.

“(4) BASIS OF NEW RESIDENCE.—Where the purchase of a new residence results, under paragraph (1), in the nonrecognition of gain upon the sale of an old residence, in determining the adjusted basis of the new residence as of any time following the sale of the old residence, the adjustments to basis shall include a reduction by an amount equal to the amount of the gain not so recognized upon the sale of the old residence. For this purpose, the amount of the gain not so recognized

1 upon the sale of the old residence includes only so much
 2 of such gain as is not recognized by reason of the cost,
 3 up to such time, of purchasing the new residence.

4 “(5) TENANT-STOCKHOLDER IN A COOPERATIVE
 5 APARTMENT CORPORATION.—For the purposes of this
 6 subsection, section 113 (b) (1) (K), and section 117
 7 (h) (7), references to property used by the taxpayer
 8 as his principal residence, and references to the residence
 9 of a taxpayer, shall include stock held by a tenant-
 10 stockholder (as defined in section 23 (z) (2)) in a
 11 cooperative apartment (as defined in such section) if—

12 “(A) in the case of stock sold, the apartment
 13 which the taxpayer was entitled to occupy as such
 14 stockholder was used by him as his principal resi-
 15 dence, and

16 “(B) in the case of stock purchased, the tax-
 17 payer used as his principal residence the apartment
 18 which he was entitled to occupy as such stockholder.

19 “(6) HUSBAND AND WIFE.—If the taxpayer and
 20 his spouse, in accordance with regulations which shall
 21 be prescribed by the Secretary pursuant to this para-
 22 graph, consent to the application of subparagraph (B)
 23 of this paragraph, then—

24 “(A) for the purposes of this subsection, the
 25 words ‘taxpayer’s selling price of the old residence’

1 shall mean the selling price (of the taxpayer, or
2 of the taxpayer and his spouse) of the old residence,
3 and the words 'taxpayer's cost of purchasing the
4 new residence' shall mean the cost (to the tax-
5 payer, his spouse, or both) of purchasing the new
6 residence (whether held by the taxpayer, his spouse,
7 or the taxpayer and his spouse) ; and

8 “(B) so much of the gain upon the sale of the
9 old residence as is not recognized solely by reason
10 of this paragraph, and so much of the adjustment
11 under paragraph (4) to the basis of the new resi-
12 dence as results solely from this paragraph, shall
13 be allocated between the taxpayer and his spouse as
14 provided in such regulations.

15 This paragraph shall apply only if the old residence and
16 the new residence are each used by the taxpayer and his
17 spouse as their principal residence. In case the tax-
18 payer and his spouse do not consent to the application
19 of subparagraph (B) of this paragraph, then the recog-
20 nition of gain upon the sale of the old residence shall be
21 determined under this subsection without regard to the
22 rules provided in this paragraph.

23 “(7) STATUTE OF LIMITATIONS.—If the taxpayer

1 during a taxable year sells at a gain property used by
2 him as his principal residence, then—

3 “(A) the statutory period for the assessment
4 of any deficiency attributable to any part of such
5 gain shall not expire prior to the expiration of three
6 years from the date the Secretary is notified by the
7 taxpayer (in such manner as the Secretary may by
8 regulations prescribe) of—

9 “(i) the taxpayer’s cost of purchasing the
10 new residence which the taxpayer claims re-
11 sults in nonrecognition of any part of such gain,

12 “(ii) the taxpayer’s intention not to pur-
13 chase a new residence within the period speci-
14 fied in paragraph (1), or

15 “(iii) a failure to make such purchase
16 within such period; and

17 “(B) such deficiency may be assessed prior to
18 the expiration of such three-year period notwith-
19 standing the provisions of any other law or rule of
20 law which would otherwise prevent such assess-
21 ment.”

22 (b) TECHNICAL AMENDMENTS.—

23 (1) Section 112 (f) (relating to involuntary con-
24 versions) is hereby amended by adding at the end
25 thereof the following: “This subsection shall not apply,

1 in the case of property used by the taxpayer as his
2 principal residence, if the destruction, theft, seizure,
3 requisition, or condemnation of the residence, or the
4 sale or exchange of such residence under threat or
5 imminence thereof, occurred after December 31, 1950.”

6 (2) Section 113 (a) (9) (relating to basis of
7 property acquired as a result of involuntary conversions)
8 is hereby amended by adding at the end thereof the
9 following: “This paragraph shall not apply in respect
10 of property acquired as a result of a compulsory or
11 involuntary conversion of property used by the taxpayer
12 as his principal residence if the destruction, theft, seizure,
13 requisition, or condemnation of such residence, or the
14 sale or exchange of such residence under threat or
15 imminence thereof, occurred after December 31, 1950.”

16 (3) Section 113 (b) (1) (relating to adjusted
17 basis of property) is hereby amended by adding at the
18 end thereof the following new subparagraph:

19 “(K) in the case of a residence the acquisition
20 of which resulted, under the provisions of section
21 112 (n), in the nonrecognition of any part of the
22 gain realized upon the sale, exchange, or involun-
23 tary conversion of another residence, to the extent
24 provided in section 112 (n) (4).”

25 (4) Section 117 (h) (relating to determination of

1 holding period) is hereby amended by adding at the end
2 thereof the following new paragraph:

3 “(7) In determining the period for which the tax-
4 payer has held a residence, the acquisition of which
5 resulted under section 112 (n) in the nonrecognition of
6 any part of the gain realized on the sale, exchange, or
7 involuntary conversion of another residence, there shall
8 be included the period for which such other residence
9 had been held as of the date of such sale, exchange, or
10 involuntary conversion.”

11 (5) Section 276 (relating to period of limitation
12 upon assessment and collection) is hereby amended by
13 adding at the end thereof the following:

14 “(e) GAIN UPON SALE OR EXCHANGE OF RESI-
15 DENCE.—In the case of a deficiency described in section
16 112 (n) (7), such deficiency may be assessed at any time
17 prior to the expiration of the time therein provided.”

18 (c) EFFECTIVE DATE.—The amendments made by this
19 section shall be applicable to taxable years ending after
20 December 31, 1950, but the provisions of section 112 (n)
21 (1) and (6) of the Internal Revenue Code shall apply only
22 with respect to residences sold (within the meaning of such
23 section) after such date.

1 **SEC. 304. PERCENTAGE DEPLETION.**

2 (a) ALLOWANCE OF PERCENTAGE DEPLETION.—So
3 much of paragraph (4) of section 114 (b) as precedes the
4 last sentence of subparagraph (A) is hereby amended to
5 read as follows:

6 “(4) PERCENTAGE DEPLETION FOR COAL AND
7 METAL MINES AND FOR CERTAIN OTHER MINES AND
8 NATURAL MINERAL DEPOSITS.—

9 “(A) IN GENERAL.—The allowance for deple-
10 tion under section 23 (m) in the case of the follow-
11 ing mines and other natural deposits shall be—

12 “(i) in the case of asbestos, sand, gravel,
13 stone (including pumice, scoria, and slate),
14 brick and tile clay, shale, oyster shell, clam
15 shell, granite, and marble, 5 per centum,

16 “(ii) in the case of coal, 10 per centum,

17 “(iii) in the case of metal mines, bauxite,
18 fluorspar, flake graphite, vermiculite, beryl,
19 feldspar, mica, talc (including pyrophyllite),
20 lepidolite, spodumene, barite, ball and sagger
21 clay, china clay, phosphate rock, rock asphalt,
22 trona, bentonite, gilsonite, thenardite (includ-
23 ing thenardite from brines or mixtures of

1 brine), potash, borax, fuller's earth, tripoli, re-
 2 fractory and fire clay, quartzite, perlite, diato-
 3 maceous earth, metallurgical grade limestone,
 4 and chemical grade limestone, 15 per centum,
 5 and

6 “(iv) in the case of sulfur, 23 per centum,
 7 of the gross income from the property during the
 8 taxable year, excluding from such gross income an
 9 amount equal to any rents or royalties paid or
 10 incurred by the taxpayer in respect of the property.”

11 (b) TECHNICAL AMENDMENT.—So much of para-
 12 graph (2) of section 114 (b) as precedes “discovered by
 13 the taxpayer after February 28, 1913” is hereby amended
 14 to read as follows:

15 “(2) DISCOVERY VALUE IN THE CASE OF
 16 MINES.—In the case of mines (except mines in respect
 17 of which percentage depletion is allowable under para-
 18 graph (4) of this subsection)”.
 19 (c) EFFECTIVE DATE.—The amendments made by this

20 section shall be applicable only with respect to taxable
 21 years beginning after December 31, 1950.

22 SEC. 305. CAPITAL GAINS AND LOSSES.

23 (a) TREATMENT OF LONG-TERM CAPITAL GAINS AND
 24 LOSSES.—

25 (1) AMENDMENT OF SECTION 23.—Section 23 (re-

1 relating to deductions from gross income) is hereby
2 amended by adding at the end thereof the following
3 new subsection:

4 “(cc) LONG-TERM CAPITAL GAINS.—In the case of
5 a taxpayer other than a corporation, the deduction for long-
6 term capital gains provided in section 117 (b).”

7 (2) AMENDMENT OF SECTION 117 (b).—Section
8 117 (b) (relating to treatment of long-term capital gains
9 and losses) is hereby amended to read as follows:

10 “(b) DEDUCTION FROM GROSS INCOME.—In the case
11 of a taxpayer other than a corporation, if for any taxable
12 year the net long-term capital gain exceeds the net short-
13 term capital loss, 50 per centum of the amount of such
14 excess shall be a deduction from gross income. In the case
15 of an estate or trust, the deduction shall be computed by
16 excluding the portion (if any), of the gains for the taxable
17 year from sales or exchanges of capital assets, which, under
18 section 162 (b) or (c), is includible by the income bene-
19 ficiaries as gain derived from the sale or exchange of capital
20 assets.”

21 (b) ALTERNATIVE TAX.—Section 117 (c) (2) (re-
22 lating to alternative tax) is hereby amended to read as
23 follows:

24 “(2) OTHER TAXPAYERS.—If for any taxable year
25 the net long-term capital gain of any taxpayer (other

1 than a corporation) exceeds the net short-term capital
 2 loss, there shall be levied, collected, and paid, in lieu
 3 of the tax imposed by sections 11 and 12 (or, in the
 4 case of certain tax-exempt trusts, in lieu of the tax
 5 imposed by section 421), a tax determined as follows,
 6 if and only if such tax is less than the tax imposed by
 7 such section:

8 “(A) A partial tax shall first be computed
 9 upon the net income reduced by an amount equal
 10 to 50 per centum of such excess, at the rates and
 11 in the manner as if this subsection had not been
 12 enacted.

13 “(B) There shall then be ascertained an amount
 14 equal to 25 per centum of the excess of the net
 15 long-term capital gain over the net short-term
 16 capital loss. In the case of taxable years to which
 17 the defense tax provided in section 16 (c) is appli-
 18 cable, such amount shall be increased by the per-
 19 centage specified in such section.

20 “(C) The total tax shall be the partial tax
 21 computed under subparagraph (A) plus the amount
 22 computed under subparagraph (B).”

23 (c) TECHNICAL AMENDMENTS.—

24 (1) AMENDMENT OF SECTION 22 (n).—Section 22
 25 (n) (relating to the definition of adjusted gross income)

1 is hereby amended by striking out the word “and” at
2 the end of paragraph (5), by striking out the period
3 at the end of paragraph (6) and inserting in lieu thereof
4 “; and”, and by inserting after paragraph (6) the fol-
5 lowing new paragraph:

6 “(7) LONG-TERM CAPITAL GAINS.—The deduction
7 allowed by section 23 (cc).”

8 (2) AMENDMENT OF SECTION 117 (a).—Paragraphs
9 (2) and (4) of section 117 (a) (relating to definitions
10 of short-term capital gain and long-term capital gain)
11 are each hereby amended by striking out “net income”
12 and inserting in lieu thereof “gross income”.

13 (3) AMENDMENT OF SECTION 117 (j).—Section
14 117 (j) (2) (A) (relating to gains and losses from
15 involuntary conversion and from the sale or exchange
16 of certain property used in the trade or business) is
17 hereby amended to read as follows:

18 “(A) In determining under this paragraph
19 whether gains exceed losses, the gains described
20 therein shall be included only if and to the extent
21 taken into account in computing gross income and
22 the losses described therein shall be included only
23 if and to the extent taken into account in computing
24 net income, except that subsection (d) shall not
25 apply.”

1 (4) AMENDMENT OF SECTION 122 (d) (4).—Section
2 122 (d) (4) (relating to computation of net operating
3 loss deduction) is hereby amended to read as follows:

4 “(4) The amount deductible on account of losses
5 from sales or exchanges of capital assets shall not exceed
6 the amount includible on account of gains from such
7 sales or exchanges. The deduction provided in section
8 23 (cc) shall not be allowed.”

9 (5) AMENDMENT OF SECTION 162 (a).—Section
10 162 (a) (relating to computation of net income of
11 estates and trusts) is hereby amended by striking out
12 the semicolon and inserting in lieu thereof a period and
13 the following: “Where any amount of the income so
14 paid or set aside is attributable to gain from the sale
15 or exchange of capital assets held for more than six
16 months, proper adjustment of the deduction otherwise
17 allowable under this subsection shall be made for any
18 deduction allowable to the trust under section 23 (cc).”

19 (d) EFFECTIVE DATE.—The amendments made by this
20 section shall be applicable only with respect to taxable years
21 beginning on or after the date of the enactment of this Act.
22 In determining under section 117 (e) of the Internal Rev-
23 enue Code the amount of the carryover to a taxable year
24 beginning on or after such date, of the capital loss for a
25 taxable year beginning before such date, such amendments

1 shall not affect the computation of the amount of the net
2 capital loss or of the net capital gain for any taxable year
3 beginning before such date.

4 **SEC. 306. SALES OF LIVESTOCK.**

5 Effective with respect to taxable years beginning after
6 December 31, 1950, section 117 (j) (1) is hereby amended
7 by adding at the end thereof the following new sentence:
8 "Such term also includes livestock held by the taxpayer for
9 draft, breeding, or dairy purposes for 12 months or more."

10 **SEC. 307. TAX TREATMENT OF COAL ROYALTIES.**

11 (a) **DEFINITION OF PROPERTY USED IN THE TRADE OR**
12 **BUSINESS.**—Section 117 (j) (1) (relating to the definition
13 of property used in the trade or business) is hereby amended
14 by adding after the word "timber" in the second sentence
15 thereof the following: "or coal".

16 (b) **GAIN OR LOSS UPON CERTAIN DISPOSALS OF**
17 **TIMBER OR COAL.**—Section 117 (k) (2) (relating to the
18 disposal of timber) is hereby amended to read as follows:

19 "(2) In the case of the disposal of timber or coal
20 (held for more than 6 months prior to such disposal)
21 by the owner thereof under any form or type of contract
22 by virtue of which the owner retains an economic interest
23 in such timber or coal, the difference between the amount
24 received for such timber or coal and the adjusted deple-
25 tion basis thereof shall be considered as though it were

1 a gain or loss, as the case may be, upon the sale of such
 2 timber or coal. Such owner shall not be entitled to the
 3 allowance for percentage depletion provided for in sec-
 4 tion 114 (b) (4) with respect to such coal. In the
 5 case of coal, this paragraph shall not apply if such owner
 6 is personally obligated to pay a share of the cost of
 7 mining operations.”

8 (c) CLERICAL AMENDMENT.—The heading to section
 9 117 (k) (relating to the gain or loss upon the cutting of
 10 timber) is hereby amended to read as follows: “(k) GAIN
 11 OR LOSS IN THE CASE OF TIMBER OR COAL.—”.

12 (d) EFFECTIVE DATE.—The amendments made by this
 13 section shall be applicable only with respect to taxable years
 14 ending after December 31, 1950 (whether the disposal of
 15 the coal occurred on, before, or after such date), but shall
 16 apply only with respect to amounts received or accrued after
 17 such date.

18 SEC. 308. COLLAPSIBLE CORPORATIONS.

19 (a) Definitions with Respect to Collapsible Corpora-
 20 tions.—Section 117 (m) (2) (relating to definitions with
 21 respect to collapsible corporations) is hereby amended to
 22 read as follows:

23 “(2) DEFINITIONS.—

24 “(A) For the purposes of this subsection, the
 25 term ‘collapsible corporation’ means a corporation

formed or availed of principally for the manufacture, construction, or production of property, for the purchase of property which (in the hands of the corporation) is property described in subsection (a) (1) (A), or for the holding of stock in a corporation so formed or availed of, with a view to—

“(i) the sale or exchange of stock by its shareholders (whether in liquidation or otherwise), or a distribution to its shareholders, prior to the realization by the corporation manufacturing, constructing, producing, or purchasing the property of a substantial part of the net income to be derived from such property, and

“(ii) the realization by such shareholders of gain attributable to such property.

“(B) For the purposes of subparagraph (A), a corporation shall be deemed to have manufactured, constructed, produced, or purchased property, if—

“(i) it engaged in the manufacture, construction, or production of such property to any extent,

“(ii) it holds property having a basis determined, in whole or in part, by reference to the cost of such property in the hands of a per-

1 son who manufactured, constructed, produced,
2 or purchased the property, or

3 “(iii) it holds property having a basis
4 determined, in whole or in part, by reference to
5 the cost of property manufactured, constructed,
6 produced, or purchased by the corporation.”

7 (b) LIMITATIONS ON APPLICATION OF SECTION 117

8 (m).—Subparagraphs (A), (B), and (C) of section 117

9 (m) (3) (relating to the limitations on the application of
10 section 117 (m)) are hereby amended to read as follows:

11 “(A) this subsection shall not apply unless, at
12 any time after the commencement of the manufac-
13 ture, construction, or production of the property, or
14 at the time of the purchase of the property described
15 in subsection (a) (1) (A) or at any time there-
16 after, such shareholder (i) owned (or was con-
17 sidered as owning) more than 10 per centum
18 in value of the outstanding stock of the corporation,
19 or (ii) owned stock which was considered as owned
20 at such time by another shareholder who then owned
21 (or was considered as owning) more than 10 per
22 centum in value of the outstanding stock of the
23 corporation;

“(B) this subsection shall not apply to the gain recognized during a taxable year unless more than 70 per centum of such gain is attributable to the property so manufactured, constructed, produced, or purchased; and

“(C) this subsection shall not apply to gain realized after the expiration of three years following the completion of such manufacture, construction, production, or purchase.”

(c) **EFFECTIVE DATE.**—The amendment made by this section shall be applicable to taxable years beginning after December 31, 1950. The determination of the tax treatment of gains realized in taxable years beginning prior to January 1, 1951, shall be made as if this section had not been enacted and without inferences drawn from the fact that the amendment to section 117 (m) made by this section is not expressly made applicable to gains realized in taxable years beginning prior to such date and without inferences drawn from the limitations contained in section 117 (m), as amended by this section.

SEC. 309. DEALERS IN SECURITIES—CAPITAL GAINS AND ORDINARY LOSSES.

Effective with respect to sales or exchanges made after the expiration of the thirtieth day after the date of the enact-

1 ment of this Act, section 117 is hereby amended by adding
2 at the end thereof the following new subsection:

3 “(n) DEALERS IN SECURITIES.—

4 “(1) CAPITAL GAINS.—Gain by a dealer in securi-
5 ties from the sale or exchange of any security shall in no
6 event be considered as gain from the sale or exchange
7 of a capital asset unless—

8 “(A) the security was, prior to the expiration
9 of the thirtieth day after the date of its acquisition or
10 after the date of the enactment of the Revenue Act
11 of 1951 (whichever is the later), clearly identified
12 in the dealer’s records as a security held for invest-
13 ment; and

14 “(B) the security was not, at any time after
15 the expiration of such thirtieth day, held by such
16 dealer primarily for sale to customers in the ordinary
17 course of his trade or business.

18 “(2) ORDINARY LOSSES.—Loss by a dealer in se-
19 curities from the sale or exchange of any security shall
20 in no event be considered as loss from the sale or ex-
21 change of property which is not a capital asset if at any
22 time after the thirtieth day following the date of the
23 enactment of the Revenue Act of 1951 the security was
24 clearly identified in the dealer’s records as a security
25 held for investment.

“(3) DEFINITION OF SECURITY.—For the purposes of this subsection the term ‘security’ means any share of stock in any corporation, certificate of stock or interest in any corporation, note, bond, debenture, or evidence of indebtedness, or any evidence of an interest in or right to subscribe to or purchase any of the foregoing.”

SEC. 310. TREATMENT OF GAIN ON SALES OF CERTAIN PROPERTY BETWEEN SPOUSES AND BETWEEN AN INDIVIDUAL AND A CONTROLLED CORPORATION.

(a) DISALLOWANCE OF CAPITAL GAIN TREATMENT.—

Section 117 (relating to capital gains and losses) is hereby amended by adding at the end thereof the following new subsection:

“(o) GAIN FROM SALE OF CERTAIN PROPERTY BETWEEN SPOUSES OR BETWEEN AN INDIVIDUAL AND A CONTROLLED CORPORATION.—

“(1) TREATMENT OF GAIN AS ORDINARY INCOME.—In the case of a sale or exchange, directly or indirectly, of property described in paragraph (2) —

“(A) between a husband and wife; or

“(B) between an individual and a corporation more than 50 per centum in value of the outstand-

1 ing stock of which is owned, directly or indirectly,
2 by or for such individual,
3 any gain recognized to the transferor from the sale or
4 exchange of such property shall be considered as gain
5 from the sale or exchange of property which is neither a
6 capital asset nor property described in subsection (j).

7 “(2) SUBSECTION APPLICABLE ONLY TO SALES OR
8 EXCHANGES OF DEPRECIABLE PROPERTY.—This subsec-
9 tion shall apply only in the case of a sale or exchange of
10 property by a transferor which in the hands of the trans-
11 feree is property of a character which is subject to the
12 allowance for depreciation provided in section 23 (l).

13 “(3) STOCK OWNERSHIP.—For the purposes of
14 determining, in applying paragraph (1) (B), the
15 ownership of stock—

16 “(A) stock owned, directly or indirectly, by or
17 for a corporation, partnership, estate, or trust, shall
18 be considered as being owned proportionately by or
19 for its shareholders, partners, or beneficiaries;

20 “(B) an individual shall be considered as own-
21 ing the stock owned, directly or indirectly, by or for
22 his spouse;

23 “(C) if an individual owns more than 10 per
24 centum in value of the outstanding stock of a cor-
25 poration (including stock considered as owned by

1 him under subparagraphs (A) and (B)), such
2 individual shall be considered as owning the stock
3 owned in such corporation, directly or indirectly,
4 by or for his brothers and sisters (whether by the
5 whole or the half blood), ancestors, and lineal
6 descendants;

7 “(D) stock constructively owned by a person
8 by reason of the application of subparagraph (A)
9 shall, for the purpose of applying subparagraph
10 (A), (B), or (C), be treated as actually owned
11 by such person, but stock constructively owned by
12 an individual by reason of the application of sub-
13 paragraph (B) or (C) shall not be treated as
14 owned by him for the purpose of applying either
15 such subparagraph in order to make another the
16 constructive owner of such stock.”

17 (b) EFFECTIVE DATE.—The amendment made by sub-
18 section (a) shall be applicable with respect to taxable years
19 ending after April 30, 1951, but shall apply only with
20 respect to sales or exchanges made after May 3, 1951.

21 **SEC. 311. LIFE INSURANCE COMPANIES.**

22 (a) RESERVE AND OTHER POLICY LIABILITY CREDIT
23 FOR 1951.—So much of section 202 (b) (2) (relating to
24 definition of reserve and other policy liability credit) as

1 precedes subparagraph (A) thereof is hereby amended to
2 read as follows:

3 “(2) SPECIAL RULE FOR 1949, 1950, AND 1951.—

4 In the case of the taxes imposed for a taxable year
5 beginning in 1949, 1950, or 1951, the figure to be used
6 for such year shall be computed as provided in paragraph
7 (1) except that—”.

8 (b) EFFECTIVE DATE.—The amendment made by
9 subsection (a) shall be applicable to taxable years beginning
10 in 1951.

11 **SEC. 312. TAX TREATMENT OF CERTAIN INVESTMENT COM-**
12 **PANIES.**

13 (a) INCLUSION OF CERTAIN REGISTERED MANAGE-
14 MENT COMPANIES IN THE DEFINITION OF REGULATED
15 INVESTMENT COMPANY.—Section 361 (relating to defini-
16 tion of regulated investment companies) is hereby amended
17 by adding at the end thereof the following new subsection:

18 “(c) CERTAIN INVESTMENT COMPANIES.—If the
19 Securities and Exchange Commission determines in accord-
20 ance with regulations issued by it, and certifies to the Secre-
21 tary not more than 60 days prior to the close of the taxable
22 year of a registered management company, that such invest-
23 ment company is principally engaged in the furnishing of
24 capital to other corporations which are principally engaged
25 in the development or exploitation of inventions, tech-

1 nological developments, new processes, or products not
2 previously generally available, such investment company
3 may, in the computation of 50 per centum of the value of
4 its assets under subparagraph (A) of subsection (b) (3)
5 for any quarter of such taxable year, include with respect
6 to any issuer securities which constitute more than 10 per
7 centum of the outstanding voting securities of such issuer if
8 the investment company has not continuously held any
9 security of such issuer (or of any predecessor company
10 of such issuer as determined under regulations prescribed
11 by the Secretary) for 10 or more years preceding such
12 quarter of such taxable year. The provisions of this sub-
13 section shall not apply at the close of any quarter of a tax-
14 able year to an investment company if at the close of such
15 quarter more than 25 per centum of the value of its total
16 assets is represented by securities of issuers with respect
17 to each of which the investment company holds more than
18 10 per centum of the outstanding voting securities of such
19 issuer and in respect of each of which or any predecessor
20 thereof the investment company has continuously held any
21 security for 10 or more years preceding such quarter unless
22 the value of its total assets so represented is reduced to
23 25 per centum or less within 30 days after the close of such
24 quarter. The terms used in this subsection shall have the
25 same meaning as in subsection (b) (3) of this section. For

1 the purposes of this subsection, a corporation shall be con-
 2 sidered to be principally engaged in the development or
 3 exploitation of inventions, technological improvements, new
 4 processes, or products not previously generally available, for
 5 at least 10 years after the date of the first acquisition of any
 6 security in such corporation or any predecessor thereof by
 7 such investment company if at the date of such acquisition
 8 the corporation or its predecessor was principally so en-
 9 gaged. For the purposes of the certification hereunder, the
 10 Securities and Exchange Commission shall have authority to
 11 issue such rules, regulations and orders, and to conduct such
 12 investigations and hearings, either public or private, as it
 13 may deem appropriate."

14 (b) TECHNICAL AMENDMENT. Section 361 (b) (3)
 15 (A) is hereby amended by inserting after "the total assets
 16 of the taxpayer and" the following: ", except and to the
 17 extent provided in subsection (c),".

18 (c) EFFECTIVE DATE.—The amendments made by this
 19 section shall be applicable only with respect to taxable years
 20 beginning after December 31, 1950.

21 **SEC. 313. FAMILY PARTNERSHIPS.**

22 (a) DEFINITION OF PARTNER.—Section 3797 (a) (2)
 23 is hereby amended by adding at the end thereof the follow-
 24 ing: "A person shall be recognized as a partner for income
 25 tax purposes if he owns a capital interest in a partnership in

1 which capital is a material income-producing factor, whether
2 or not such interest was derived by purchase or gift from
3 any other person.”

4 (b) ALLOCATION OF PARTNERSHIP INCOME.—Sup-
5 plement F of chapter 1 is hereby amended by adding at
6 the end thereof the following new section:

7 **“SEC. 191. FAMILY PARTNERSHIPS.**

8 “In the case of any partnership interest created by
9 gift, the distributive share of the donee under the partner-
10 ship agreement shall be includible in his gross income, except
11 to the extent that such share is determined without allow-
12 ance of reasonable compensation for services rendered to
13 the partnership by the donor, and except to the extent that
14 the portion of such share attributable to donated capital is
15 proportionately greater than the share of the donor attribut-
16 able to the donor’s capital. The distributive share of a part-
17 ner in the earnings of the partnership shall not be dimin-
18 ished because of absence due to military service. For the
19 purpose of this section, an interest purchased by one mem-
20 ber of a family from another shall be considered to be created
21 by gift from the seller, and the fair market value of the pur-
22 chased interest shall be considered to be donated capital.
23 The ‘family’ of any individual shall include only his spouse,
24 ancestors, and lineal descendants, and any trust for the
25 primary benefit of such persons.”

1 (c) **EFFECTIVE DATE.**—The amendments made by this
 2 section shall be applicable with respect to taxable years
 3 beginning after December 31, 1950. The determination
 4 as to whether a person shall be recognized as a partner for
 5 income tax purposes for any taxable year beginning before
 6 January 1, 1951 shall be made as if this section had not
 7 been enacted and without inferences drawn from the fact
 8 that this section is not expressly made applicable with
 9 respect to taxable years beginning before January 1, 1951.

10 **TITLE IV—EXCISE TAXES**

11 **Part I—Tax on Admissions and Cabarets**

12 **SEC. 401. REMOVAL OF TAX ON FREE ADMISSIONS.**

13 Section 1700 (a) (1) (relating to tax on single or
 14 season tickets) is hereby amended by striking out the
 15 second and fourth sentences thereof.

16 **SEC. 402. EXEMPTIONS FROM ADMISSIONS TAX.**

17 (a) **REINSTATEMENT OF PREWAR EXEMPTIONS.**—
 18 Notwithstanding section 541 (b) of the Revenue Act of
 19 1941, the provisions of section 1701 (relating to exemptions
 20 from the admissions tax) shall apply to amounts paid on
 21 or after the effective date specified in section 403 of this
 22 Act for admissions on or after such date.

23 (b) **AMENDMENT OF SECTION 1701 (a).**—Section
 24 1701 (a) (relating to religious, educational, or charitable
 25 entertainments) is hereby amended to read as follows:

1 “(a) RELIGIOUS, EDUCATIONAL, OR CHARITABLE
2 ENTERTAINMENTS, ETC.—

3 “(1) IN GENERAL.—Except as provided in para-
4 graph (2), any admissions all the proceeds of which
5 inure—

6 “(A) exclusively to the benefit of religious,
7 educational, or charitable institutions, societies, or
8 organizations, societies for the prevention of cruelty
9 to children or animals, or societies or organizations
10 conducted for the sole purpose of maintaining sym-
11 phony orchestras and receiving substantial support
12 from voluntary contributions or of maintaining a
13 cooperative or community center moving-picture
14 theatre—if no part of the net earnings thereof inures
15 to the benefit of any private stockholder or indi-
16 vidual;

17 “(B) exclusively to the benefit of National
18 Guard organizations, Reserve Officers’ associations
19 or organizations, posts or organizations of war vet-
20 erans, or auxiliary units or societies of any such posts
21 or organizations, if such posts, organizations, units,
22 or societies are organized in the United States or any
23 of its possessions, and if no part of their net earn-
24 ings inures to the benefit of any private stockholder
25 or individual; or

1 “(C) exclusively to the benefit of a police or
2 fire department of any city, town, village, or other
3 municipality, or exclusively to a fund for the sole
4 benefit of members of such a police or fire depart-
5 ment or the dependents or heirs of such members.

6 “(2) NONEXEMPT ADMISSIONS.—The exemption
7 provided under paragraph (1) shall not apply in the
8 case of admissions to (A) any athletic game or exhibi-
9 tion unless the proceeds inure exclusively to the benefit
10 of an elementary or secondary school, (B) wrestling
11 matches, prize fights, or boxing, sparring, or other pugi-
12 listic matches or exhibitions, or (C) carnivals, rodeos, or
13 circuses in which any professional performer or operator
14 participates for compensation.”

15 (c) ADMISSIONS TO MUNICIPAL SWIMMING POOLS,
16 ETC.—Section 1701 is hereby amended by striking out the
17 period at the end of subsection (c) and inserting in lieu
18 thereof “; or” and by adding at the end of such section the
19 following new subsection:

20 “(d) MUNICIPAL SWIMMING POOLS, ETC.—Any ad-
21 missions to swimming pools, bathing beaches, skating rinks,
22 or other places providing facilities for physical exercise, op-
23 erated by any State or political subdivision thereof or by the
24 United States or any agency or instrumentality thereof—if
25 the proceeds therefrom inure exclusively to the benefit of

1 the State, political subdivision, United States, agency, or
 2 instrumentality. For the purposes of this subsection the
 3 term 'State' includes Alaska, Hawaii, and the District of
 4 Columbia."

5 **SEC. 403. EFFECTIVE DATE OF AMENDMENTS RELATING**
 6 **TO ADMISSIONS.**

7 The amendments made by sections 401 and 402 shall
 8 be applicable with respect to amounts paid on or after the
 9 first day of the first month which begins more than ten
 10 days after the date of the enactment of this Act for admis-
 11 sions on or after such date.

12 **SEC. 404. TAX ON CABARETS, ROOF GARDENS, ETC.**

13 (a) **BALLROOMS AND DANCE HALLS.**—Section 1700

14 (e) (1) (relating to tax on cabarets, roof gardens, etc.) is
 15 hereby amended by inserting after the second sentence
 16 thereof the following new sentence: "In no case shall such
 17 term include any ballroom, dance hall, or other similar place
 18 where the serving or selling of food, refreshment, or mer-
 19 chandise is merely incidental, unless such place would be
 20 considered, without the application of the preceding sentence,
 21 as a 'roof garden, cabaret, or other similar place'."

22 (b) **EFFECTIVE DATE.**—The amendment made by
 23 subsection (a) shall be applicable only with respect to
 24 periods after 10 antemeridian on the first day of the first

1 month which begins more than ten days after the date of the
2 enactment of this Act.

3 **Part II—Tax on Cigarettes**

4 **SEC. 421. TAX ON CIGARETTES.**

5 (a) INCREASE IN RATE.—Section 2000 (c) (2)
6 (tax on cigarettes) is hereby amended by striking out
7 “\$3.50” and inserting in lieu thereof “\$4”.

8 (b) EFFECTIVE DATE.—The amendment made by sub-
9 section (a) shall take effect on the first day of the first
10 month which begins more than 10 days after the date of
11 the enactment of this Act.

12 **SEC. 422. FLOOR STOCKS TAX ON CIGARETTES.**

13 Section 2000 (relating to tax on tobacco, etc.) is hereby
14 amended by adding at the end thereof the following new
15 subsection:

16 “(f) 1951 FLOOR STOCKS TAX.—

17 “(1) TAX.—Upon cigarettes subject to tax under
18 this section weighing not more than three pounds per
19 thousand, which on the effective date of section 421
20 of the Revenue Act of 1951 are held by any person
21 for sale, there shall be levied, assessed, collected, and
22 paid a floor stocks tax at a rate equal to the increase
23 in rate of tax made applicable to such cigarettes by the
24 Revenue Act of 1951.

25 “(2) RETURNS.—Every person required by this

1 subsection to pay any floor stocks tax shall, on or before
2 the end of the month next following the month in which
3 section 421 (a) of the Revenue Act of 1951 takes effect,
4 under such regulations as the Secretary shall prescribe,
5 make a return and pay such tax, except that in the case
6 of such cigarettes held by manufacturers and importers,
7 the Secretary may collect the tax with respect to such
8 cigarettes by means of stamps rather than return, and
9 in such case may make an assessment against such manu-
10 facturer or importer having cigarette tax stamps on
11 hand on the effective date of such section for the differ-
12 ence between the amount paid for such stamps and the
13 increased rate imposed by such section.

14 “(3) LAWS APPLICABLE.—All provisions of law,
15 including penalties, applicable in respect of the taxes
16 imposed by section 2000, shall, insofar as applicable
17 and not inconsistent with this subsection, be applicable
18 with respect to the floor stocks tax imposed by this
19 subsection.”

20 **Part III—Retailers’ Excise Taxes**

21 **SEC. 431. TAX ON LIGHTERS.**

22 Section 2400 (relating to retailers’ excise tax on jewelry,
23 etc.) is hereby amended by striking out in the first sentence
24 thereof the words “and binoculars.” and inserting in lieu

1 thereof the following: "binoculars; and mechanical lighters
2 for cigarettes, cigars, or pipes."

3 **SEC. 432. RETAILERS' EXCISE TAX ON TOILET PREPARA-**
4 **TIONS.**

5 (a) **BABY OILS, ETC.**—Section 2402 (a) is hereby
6 amended by adding at the end thereof the following new sen-
7 tence: "The tax imposed by this subsection shall not apply
8 to lotion, oil, powder, or other article intended to be used or
9 applied only in the care of babies."

10 (b) **SALES TO BARBER SHOPS, ETC.**—Section 2402
11 (b) is hereby amended to read as follows:

12 "(b) **BEAUTY PARLORS, ETC.**—For the purposes of
13 subsection (a), the sale of any article described in such sub-
14 section to any person operating a barbershop, beauty parlor,
15 or similar establishment for use in the operation thereof, or
16 for resale, shall not be considered as a sale at retail. The
17 resale of such article at retail by such person shall be subject
18 to the provisions of subsection (a)."

19 **SEC. 433. EFFECTIVE DATE OF PART III.**

20 The amendments made by this part shall apply only
21 to articles sold on or after the first day of the first month
22 which begins more than ten days after the date of the enact-
23 ment of this Act.

Part IV—Diesel Fuel**SEC. 441. DIESEL FUEL USED IN HIGHWAY VEHICLES.**

(a) IMPOSITION OF TAX.—The Internal Revenue Code is hereby amended by adding after chapter 19 the following new chapter:

“CHAPTER 20—DIESEL FUEL**“SEC. 2450. TAX ON DIESEL FUEL.**

“There is hereby imposed a tax of 2 cents a gallon upon any liquid (other than any product taxable under section 3412) —

“(1) sold by any person to an owner, lessee, or other operator of a diesel-powered highway vehicle, for use as a fuel in such vehicle, or

“(2) used by any person as a fuel in a diesel-powered highway vehicle unless there was a taxable sale of such liquid under clause (1).

“SEC. 2451. RETURNS AND PAYMENT.

“(a) REQUIREMENT.—Every person liable for tax under this chapter shall make returns and pay the taxes due to the collector for the district in which is located his principal place of business, or if he has no principal place of business in the United States, then to the collector at Baltimore, Maryland. Such returns shall contain such information and

1 be made at such times and in such manner as the Secretary
2 may by regulations prescribe.

3 “(b) INTEREST.—The tax shall, without assessment or
4 notice, be due and payable to the collector at the time pre-
5 scribed for filing the return. If the tax is not paid when
6 due, there shall be added as part of the tax interest at the
7 rate of 6 per centum per annum from the time when the
8 tax became due until paid.

9 **“SEC. 2452. CREDITS AND REFUNDS.**

10 “(a) NON-TAXABLE USE OR SALE BY VENDEE.—A
11 credit against tax under this chapter, or a refund, may be
12 allowed or made to a person in the amount of tax paid by
13 him under this chapter with respect to his sale of any liquid
14 to a vendee for use as fuel in a diesel-powered highway
15 vehicle, if such person establishes, in accordance with regu-
16 lations prescribed by the Secretary, that—

17 “(1) the vendee used such liquid otherwise than
18 as fuel in such a vehicle or resold such liquid, and

19 “(2) such person has repaid or agreed to repay
20 the amount of such tax to such vendee, or has obtained
21 the consent of the vendee to the allowance of the credit
22 or refund.

23 No interest shall be allowed with respect to any amount of
24 tax credited or refunded under the provisions of this sub-
25 section.

1 “(b) PROOF REQUIRED IN CASE OF CERTAIN OVER-
2 PAYMENTS.—No overpayment of tax under this chapter
3 shall be credited or refunded (otherwise than under sub-
4 section (a)) in pursuance of a court decision or otherwise,
5 unless the person who paid the tax establishes, in accord-
6 ance with regulations prescribed by the Secretary, (1) that
7 he has not included the tax in the price of the article with
8 respect to which it was imposed, or collected the amount
9 of tax from the vendee, or (2) that he has repaid the amount
10 of the tax to the ultimate purchaser of the article, or files
11 with the Secretary written consent of such ultimate pur-
12 chaser to the allowance of the credit or refund.

13 **“SEC. 2453. TAX-FREE SALES.**

14 “Under regulations prescribed by the Secretary, no tax
15 under this chapter shall be imposed with respect to the
16 sale of any liquid for the exclusive use of any State, Terri-
17 tory of the United States, or any political subdivision of the
18 foregoing, or the District of Columbia, or with respect to
19 the use by any of the foregoing of any liquid as fuel in a
20 diesel-powered highway vehicle.

21 **“SEC. 2454. APPLICABILITY OF ADMINISTRATIVE PROVI-**
22 **SIONS.**

23 “All provisions of law (including penalties) applicable
24 in respect of the taxes imposed by section 2700 shall, inso-

1 far as applicable and not inconsistent with this chapter, be
2 applicable in respect of the taxes imposed by this chapter.

3 **“SEC. 2455. RULES AND REGULATIONS.**

4 “The Secretary shall prescribe and publish all needful rules
5 and regulations for the enforcement of this chapter.”

6 (b) **EFFECTIVE DATE.**—The amendment made by sub-
7 section (a) shall take effect on the first day of the first
8 month which begins more than ten days after the date of
9 the enactment of this Act.

10 **Part V—Liquor**

11 **SEC. 451. INCREASE IN TAX ON DISTILLED SPIRITS FROM**
12 **\$9 TO \$10.50 PER GALLON.**

13 (a) **DISTILLED SPIRITS GENERALLY.**—Section 2800
14 (a) (1) is hereby amended by striking out “\$6” and in-
15 serting in lieu thereof “\$10.50”.

16 (b) **IMPORTED PERFUMES CONTAINING DISTILLED**
17 **SPIRITS.**—Section 2800 (a) (3) is hereby amended by
18 striking out “\$6” and inserting in lieu thereof “\$10.50”.

19 (c) **FLOOR STOCKS TAX.**—Section 2800 is amended
20 by inserting at the end thereof the following new subsection:

21 “(1) **1951 FLOOR STOCKS TAX.**—

22 “(1) **TAX.**—Upon all distilled spirits upon which
23 the internal revenue tax imposed by law has been paid,
24 and which on the effective date of section 451 (a) of
25 the Revenue Act of 1951, are held and intended for sale

1 or for use in the manufacture or production of any article
2 intended for sale, there shall be levied, assessed, col-
3 lected, and paid a floor stocks tax of \$1.50 on each proof-
4 gallon, and a proportionate tax at a like rate on all frac-
5 tional parts of such proof-gallon.

6 “(2) RETURNS.—Under such regulations as the
7 Secretary shall prescribe, every person required by
8 paragraph (1) to pay any floor stocks tax shall, on or
9 before the end of the thirtieth day following the effective
10 date of section 451 (a) of the Revenue Act of 1951
11 make a return and shall, on or before the first day of
12 the third month following such effective date, pay such
13 tax. Payment of the tax shown to be due may be ex-
14 tended to a date not later than the first day of the tenth
15 month following the effective date of such section upon
16 the filing of a bond for payment thereof in such form
17 and amount and with such surety or sureties as the
18 Secretary may prescribe.

19 “(3) LAWS APPLICABLE.—All provisions of law,
20 including penalties, applicable in respect of internal
21 revenue taxes on distilled spirits shall, insofar as appli-
22 cable and not inconsistent with this subsection, be appli-
23 cable in respect of the floor stocks tax imposed here-
24 under. For the purposes of this subsection the term
25 ‘distilled spirits’ shall include products produced in such

1 manner that the person producing them is a rectifier
2 within the meaning of section 3254 (g).”

3 SEC. 452. WINES.

4 (a) INCREASE IN RATE OF TAX.—

5 (1) STILL WINES.—So much of section 3030 (a)

6 (1) (A) (tax on still wines, etc.) as precedes the sec-
7 ond sentence thereof is hereby amended to read as
8 follows:

9 “(A) Imposition.—Upon all still wines, in-
10 cluding vermouth, and all artificial or imitation
11 wines or compounds sold as still wine, produced in
12 or imported into the United States on or after the
13 effective date of section 452 (a) of the Revenue
14 Act of 1951, or which on such date were on any
15 winery premises or other bonded premises or in
16 transit thereto or at any custom house, there shall
17 be levied, collected, and paid taxes at rates as fol-
18 lows, when sold, or removed for consumption or
19 sale:

20 “On wines containing not more than 14 per
21 centum of absolute alcohol, 17 cents per wine-
22 gallon, the per centum of alcohol under this section
23 to be reckoned by volume and not by weight;

“On wines containing more than 14 per centum and not exceeding 21 per centum of absolute alcohol, 67 cents per wine-gallon;

“On wines containing more than 21 per centum and not exceeding 24 per centum of absolute alcohol, \$2.25 per wine-gallon;

“All such wines containing more than 24 per centum of absolute alcohol by volume shall be classed as distilled spirits and shall pay tax accordingly.”

(2) SPARKLING WINES, LIQUEURS, AND CORDIALS.—Section 3030 (a) (2) (tax on sparkling wines, liqueurs, and cordials) is hereby amended as follows:

(A) By striking out “after June 30, 1940, or which on July 1, 1940” and inserting in lieu thereof “on or after the effective date of section 452 (a) of the Revenue Act of 1951, or which on such date”;

(B) By striking out “10 cents” and inserting in lieu thereof “17 cents”; and

(C) By striking out “5 cents” each place it occurs and inserting in lieu thereof “12 cents”.

(b) FLOOR STOCKS.—Subchapter F of chapter 26 is hereby amended by inserting at the end thereof the following new section:

1 **"SEC. 3195. 1951 FLOOR STOCKS TAX ON WINES.**

2 “(a) Upon all wines upon which the internal revenue
3 tax imposed by law has been paid, and which on the effective
4 date of section 452 (a) of the Revenue Act of 1951 are held
5 and intended for sale or for use in the manufacture or pro-
6 duction of an article intended for sale, there shall be levied,
7 assessed, collected, and paid a floor stocks tax at rates equal
8 to the increases in rates of tax made applicable to such articles
9 by section 452 (a) of the Revenue Act of 1951.

10 “(b) RETURNS.—Under such regulations as the Secre-
11 tary shall prescribe, every person required by subsection (a)
12 to pay any floor stocks tax shall, on or before the end of the
13 thirtieth day following the effective date of section 452 (a)
14 of the Revenue Act of 1951 make a return and shall, on or
15 before the first day of the third month following such effec-
16 tive date, pay such tax. Payment of the tax shown to be due
17 may be extended to a date not later than the first day of the
18 tenth month following the effective date of section 452 (a)
19 of the Revenue Act of 1951, upon the filing of a bond for
20 payment thereof in such form and amount and with such
21 surety or sureties as the Secretary may prescribe.

22 “(c) LAWS APPLICABLE.—All provisions of law, in-
23 cluding penalties, applicable in respect of the taxes imposed
24 by section 3030 (a) shall, insofar as applicable and not in-

1 consistent with this section, be applicable with respect to the
 2 floor stocks tax imposed by subsection (a).”

3 **SEC. 453. FERMENTED MALT LIQUOR.**

4 (a) **INCREASE IN TAX ON FERMENTED MALT LIQUORS**
 5 **FROM \$8 TO \$9 PER BARREL.**—Section 3150 (a) (tax
 6 on fermented malt liquors) is hereby amended (1) by strik-
 7 ing out “\$7” and inserting in lieu thereof “\$9”, and (2)
 8 by striking out the second sentence thereof.

9 (b) **FLOOR STOCKS TAX.**—Section 3150 is hereby
 10 amended by inserting at the end thereof the following new
 11 subsection:

12 “(g) **1951 FLOOR STOCKS TAX.**—

13 “(1) **TAX.**—Upon all fermented malt liquors upon
 14 which the internal revenue tax imposed by law has been
 15 paid, and which on the effective date of section 453 (a)
 16 of the Revenue Act of 1951 are held by any person and
 17 intended for sale there shall be levied, assessed, collected,
 18 and paid a floor stocks tax at a rate of \$1 per barrel of
 19 31 gallons.

20 “(2) **RETURNS.**—Under such regulations as the
 21 Secretary shall prescribe, every person required by para-
 22 graph (1) to pay any floor stocks tax shall, on or before
 23 the end of the thirtieth day following the effective date
 24 of section 453 (a) of the Revenue Act of 1951 make a

1 return and shall, on or before the first day of the third
2 month following such effective date, pay such tax. Pay-
3 ment of the tax shown to be due may be extended to a
4 date not later than the first day of the tenth month
5 following the effective date of section 453 (a) of the
6 Revenue Act of 1951, upon the filing of a bond for
7 payment thereof in such form and amount and with such
8 surety or sureties as the Secretary may prescribe.

9 “(3) LAWS APPLICABLE.—All provisions of law,
10 including penalties, applicable in respect of the taxes
11 imposed by subsection (a) shall, insofar as applicable
12 and not inconsistent with this subsection, be applicable
13 with respect to the floor stocks tax imposed by this
14 subsection.”

15 SEC. 454. CLERICAL AMENDMENT.

16 The table contained in section 1650 (relating to the war
17 tax rates of certain miscellaneous taxes) is hereby amended
18 by striking out the following:

“2800 (a) (1)-----	Distilled Spirits-----	\$6 per gallon-----	\$9 per gallon.
2800 (a) (3)-----	Imported Perfumes Containing Distilled Spirits.	\$6 per gallon-----	\$9 per gallon.
3030 (a) (1)-----	Still Wines: (1) Not over 14% of Alcohol... (2) Over 14% and not over 21% of Alcohol. (3) Over 21% and not over 24% of Alcohol.	10 cents per gallon----- 40 cents per gallon----- \$1 per gallon-----	15 cents per gallon. 60 cents per gallon. \$2 per gallon.
3030 (a) (2)-----	Sparkling Wines, Liqueurs, and Cordials: (1) Champagne or Sparkling Wine. (2) Artificially Carbonated Wine. (3) Liqueurs, Cordials, Etc...	10 cents per half-pint or fraction thereof. 5 cents per half-pint or fraction thereof. 5 cents per half-pint or fraction thereof.	15 cents per half-pint or fraction thereof. 10 cents per half-pint or fraction thereof. 10 cents per half-pint or fraction thereof.
3150-----	Fermented Malt Liquors-----	\$7 per barrel-----	\$8 per barrel.”

1 **SEC. 455. EFFECTIVE DATE OF PART V.**

2 The amendments made by this part shall take effect on
3 the first day of the first month which begins more than
4 10 days after the date of the enactment of this Act.

5 **Part VI—Occupational Taxes**

6 **SEC. 461. DEALERS IN LIQUORS.**

7 (a) **WHOLESALE DEALERS IN LIQUORS.**—Section
8 3250 (a) (1) (relating to occupational tax on wholesale
9 dealers in liquors) is hereby amended by striking out “\$110”
10 and inserting in lieu thereof “\$200”.

11 (b) **RETAIL DEALERS IN LIQUORS.**—Section 3250
12 (b) (1) (relating to occupational tax on retail dealers in
13 liquors) is hereby amended by striking out “\$27.50” and
14 inserting in lieu thereof “\$50”.

15 (c) **WHOLESALE DEALERS IN MALT LIQUORS.**—Sec-
16 tion 3250 (d) (1) (relating to tax on wholesale dealers in
17 malt liquors) is hereby amended by striking out “\$55” and
18 inserting in lieu thereof “\$100”.

19 **SEC. 462. DRAWBACK IN THE CASE OF DISTILLED SPIRITS**
20 **USED IN THE MANUFACTURE OF CERTAIN NON-**
21 **BEVERAGE PRODUCTS.**

22 (a) **DRAWBACK.**—Section 3250 (1) (5) (relating to
23 manufacture of certain nonbeverage products) is hereby
24 amended by striking out “\$3.75” and inserting in lieu
25 thereof “\$9.50”.

1 (b) **EFFECTIVE DATE.**—The amendment made by sub-
 2 section (a) shall be applicable only with respect to distilled
 3 spirits used on or after the first day of the first month which
 4 begins more than ten days after the date of the enactment
 5 of this Act, and on which the internal revenue tax was paid
 6 at the rate of \$10.50 specified in section 2800 (a) (1) or
 7 at a rate equivalent to such rate.

8 (c) **TECHNICAL AMENDMENT.**—Section 309 (c) of the
 9 Revenue Act of 1943 is hereby amended by adding at the
 10 end thereof the following: “Subsection (b) shall not be
 11 applicable in any case in which drawback is allowed at the
 12 rate of \$9.50 under section 3250 (1) (5) of the Internal
 13 Revenue Code, as amended by the Revenue Act of 1951.”

14 **SEC. 463. TAX ON COIN-OPERATED GAMING DEVICES.**

15 Section 3267 (a) (tax on coin-operated gaming de-
 16 vices) is hereby amended by striking out “\$150” wherever
 17 appearing therein and inserting in lieu thereof “\$250”.

18 **SEC. 464. TAX ON BOWLING ALLEYS AND BILLIARD AND**
 19 **POOL TABLES.**

20 (a) **INCREASE IN RATE.**—Section 3268 (relating to
 21 rate of tax) is hereby amended by striking out “\$10” and
 22 inserting in lieu thereof “\$25”.

1 (b) CLERICAL AMENDMENT.—The table contained in
 2 section 1650 (relating to the war tax rates of certain mis-
 3 cellaneous taxes) is hereby amended by striking out the
 4 following:

"3268.....| Billiard and Pool Tables; and | \$10 per year per table; | \$20 per year per table; \$20
 Bowling Alleys. | \$10 per year per alley. | per year per alley."

5 **SEC. 465. EFFECTIVE DATE OF PART VI.**

6 The amendments made by sections 461, 463, and 464
 7 shall take effect on the first day of the first month which
 8 begins more than ten days after the date of the enactment
 9 of this Act. In the case of the year beginning July 1, 1951,
 10 where the trade or business on which the tax is imposed
 11 was commenced prior to the first day of the month specified
 12 in the preceding sentence, the increase in tax resulting from
 13 such amendments shall be reckoned proportionately from
 14 the first day of such month to and including the thirtieth
 15 day of June following and shall be due on, and payable on
 16 or before, the last day of the month specified in the preced-
 17 ing sentence.

18 **Part VII—Wagering**

19 **SEC. 471. WAGERING TAXES.**

20 (a) IMPOSITION OF TAXES.—Subtitle B (relating to
 21 miscellaneous taxes) is hereby amended by inserting after
 22 chapter 27 the following new chapter:

1 **“CHAPTER 27A—WAGERING TAXES**

2 **“Subchapter A—Tax on Wagers**

3 **“SEC. 3285. TAX.**

4 “(a) **WAGERS.**—There shall be imposed on wagers, as
5 defined in subsection (b), an excise tax equal to 10 per
6 centum of the amount thereof.

7 “(b) **DEFINITIONS.**—For the purposes of this chapter—

8 “(1) The term ‘wager’ means (A) any wager
9 with respect to a sports event or a contest placed with a
10 person engaged in the business of accepting such wagers,
11 (B) any wager placed in a wagering pool with respect
12 to a sports event or a contest, if such pool is conducted
13 for profit, and (C) any wager placed in a lottery con-
14 ducted for profit.

15 “(2) The term ‘lottery’ includes the numbers game,
16 policy, and similar types of wagering. The term does
17 not include (A) any game of a type in which usually
18 (i) the wagers are placed, (ii) the winners are deter-
19 mined, and (iii) the distribution of prizes or other
20 property is made, in the presence of all persons placing
21 wagers in such game, and (B) any drawing conducted
22 by an organization exempt from tax under section 101, if
23 no part of the net proceeds derived from such drawing
24 inures to the benefit of any private shareholder or
25 individual.

1 “(c) AMOUNT OF WAGER.—In determining the amount
2 of any wager for the purposes of this subchapter, all charges
3 incident to the placing of such wager shall be included;
4 except that if the taxpayer establishes, in accordance with
5 regulations prescribed by the Secretary, that an amount
6 equal to the tax imposed by this subchapter has been col-
7 lected as a separate charge from the person placing such
8 wager, the amount so collected shall be excluded.

9 “(d) PERSONS LIABLE FOR TAX.—Each person who is
10 engaged in the business of accepting wagers shall be liable
11 for and shall pay the tax under this subchapter on all wagers
12 placed with him. Each person who conducts any wagering
13 pool or lottery shall be liable for and shall pay the tax under
14 this subchapter on all wagers placed in such pool or lottery.

15 “(e) EXCLUSIONS FROM TAX.—No tax shall be im-
16 posed by this subchapter (1) on any wager placed with,
17 or on any wager placed in a wagering pool conducted by, a
18 parimutuel wagering enterprise licensed under State law,
19 and (2) on any wager placed in a coin-operated device with
20 respect to which an occupational tax is imposed by section
21 3267.

22 “(f) TERRITORIAL EXTENT.—The tax imposed by this
23 subchapter shall apply only to wagers (1) accepted in the
24 United States, or (2) placed by a person who is in the
25 United States (A) with a person who is a citizen or resident

1 of the United States, or (B) in a wagering pool or lottery
2 conducted by a person who is a citizen or resident of the
3 United States.

4 **"SEC. 3286. CREDITS AND REFUNDS.**

5 " (a) No overpayment of tax under this subchapter shall
6 be credited or refunded (otherwise than under subsection
7 (b)), in pursuance of a court decision or otherwise, unless
8 the person who paid the tax establishes, in accordance with
9 regulations prescribed by the Secretary, (1) that he has
10 not collected (whether as a separate charge or otherwise)
11 the amount of the tax from the person who placed the wager
12 on which the tax was imposed, or (2) that he has repaid the
13 amount of the tax to the person who placed such wager,
14 or unless he files with the Secretary written consent of the
15 person who placed such wager to the allowance of the credit
16 or the making of the refund. In the case of any laid-off
17 wager, no overpayment of tax under this subchapter shall
18 be so credited or refunded to the person with whom such
19 laid-off wager was placed unless he establishes, in accord-
20 ance with regulations prescribed by the Secretary, that the
21 provisions of the preceding sentence have been complied
22 with both with respect to the person who placed the laid-off
23 wager with him and with respect to the person who placed
24 the original wager.

25 " (b) Where any taxpayer lays off part or all of a wager

1 with another person who is liable for tax under this sub-
2 chapter on the amount so laid off, a credit against the tax
3 imposed by this subchapter shall be allowed, or a refund
4 shall be made to, the taxpayer laying off such amount. Such
5 credit or refund shall be in an amount which bears the same
6 ratio to the amount of tax which such taxpayer paid under
7 this subchapter on the original wager as the amount so laid
8 off bears to the amount of the original wager. Credit or
9 refund under this subsection shall be allowed or made only
10 in accordance with regulations prescribed by the Secretary;
11 and no interest shall be allowed with respect to any amount
12 so credited or refunded.

13 **“SEC. 3287. CERTAIN PROVISIONS MADE APPLICABLE.**

14 “All provisions of law, including penalties, applicable
15 with respect to any tax imposed by section 2700 shall,
16 insofar as applicable and not inconsistent with the provisions
17 of this subchapter, be applicable with respect to the tax
18 imposed by this subchapter. In addition to all other records
19 required pursuant to section 2709, each person liable for tax
20 under this subchapter shall keep a daily record showing the
21 gross amount of all wagers on which he is so liable.

22 **“Subchapter B—Occupational Tax**

23 **“SEC. 3290. TAX.**

24 “A special tax of \$50 per year shall be paid by each
25 person who is liable for tax under subchapter A or who is en-

1 gaged in receiving wagers for or on behalf of any person
2 so liable.

3 **“SEC. 3291. REGISTRATION.**

4 “(a) Each person required to pay a special tax under
5 this subchapter shall register with the collector of the
6 district—

7 “(1) his name and place of residence;

8 “(2) if he is liable for tax under subchapter A, each
9 place of business where the activity which makes him so
10 liable is carried on, and the name and place of resi-
11 dence of each person who is engaged in receiving wagers
12 for him or on his behalf; and

13 “(3) if he is engaged in receiving wagers for or on
14 behalf of any person liable for tax under subchapter
15 A, the name and place of residence of each such person.

16 “(b) Where subsection (a) requires the name and
17 place of residence of a firm or company to be registered,
18 the names and places of residence of the several persons
19 constituting the firm or company shall be registered.

20 “(c) In accordance with regulations prescribed by the
21 Secretary, the collector may require from time to time such
22 supplemental information from any person required to regis-
23 ter under this section as may be needful to the enforcement
24 of this chapter.

1 **“SEC. 3292. CERTAIN PROVISIONS MADE APPLICABLE.**

2 “Sections 3271, 3273 (a), 3275, 3276, 3277, 3279, and
3 3280 shall extend to and apply to the special tax imposed
4 by this subchapter and to the persons upon whom it is
5 imposed, and for that purpose any activity which makes a
6 person liable for special tax under this subchapter shall be
7 considered to be a business or occupation described in chap-
8 ter 27. No other provision of subchapter B of chapter 27
9 shall so extend or apply.

10 **“SEC. 3293. POSTING.**

11 “Every person liable for special tax under this sub-
12 chapter shall place and keep conspicuously in his principal
13 place of business the stamp denoting the payment of such
14 special tax; except that if he has no such place of business,
15 he shall keep such stamp on his person, and exhibit it, upon
16 request, to any officer or employee of the Bureau of Internal
17 Revenue.

18 **“SEC. 3294. PENALTIES.**

19 “(a) **FAILURE TO PAY TAX.**—Any person who does
20 any act which makes him liable for special tax under this
21 subchapter, without having paid such tax, shall, besides be-
22 ing liable to the payment of the tax, be fined not less than
23 \$1,000 and not more than \$5,000.

1 “(b) FAILURE TO POST OR EXHIBIT STAMP.—Any
 2 person who, through negligence, fails to comply with section
 3 3293, shall be liable to a penalty of \$50, and the cost of
 4 prosecution. Any person who, through willful neglect or
 5 refusal, fails to comply with section 3293, shall be liable to a
 6 penalty of \$100, and the cost of prosecution.

7 “(c) WILLFUL VIOLATIONS.—The penalties prescribed
 8 by section 2707 with respect to the tax imposed by section
 9 2700 shall apply with respect to the tax imposed by this
 10 subchapter.

11 **“Subchapter C—Miscellaneous Provisions**

12 **“SEC. 3297. APPLICABILITY OF FEDERAL AND STATE LAWS.**

13 “The payment of any tax imposed by this chapter with
 14 respect to any activity shall not exempt any person from any
 15 penalty provided by a law of the United States or of any
 16 State for engaging in the same activity, nor shall the payment
 17 of any such tax prohibit any State from placing a tax on the
 18 same activity for State or other purposes.

19 **“SEC. 3298. INSPECTION OF BOOKS.**

20 “Notwithstanding section 3631, the books of account of
 21 any person liable for tax under this chapter may be examined
 22 and inspected as frequently as may be needful to the en-
 23 forcement of this chapter.”

24 (b) TECHNICAL AMENDMENT.—Section 3310 (f)
 25 (relating to discretion allowed the Commissioner with re-

1 spect to returns and payment of tax) is hereby amended by
 2 inserting after “subchapter A of chapter 25,” the following:
 3 “subchapter A of chapter 27A,”.

4 **SEC. 472. EFFECTIVE DATE OF PART VII.**

5 The tax imposed by subchapter A of chapter 27A, as
 6 added by section 471, shall apply only with respect to
 7 wagers placed on or after the first day of the first month
 8 which begins more than 10 days after the date of enactment
 9 of this Act. No tax shall be payable under subchapter B of
 10 chapter 27A, as added by section 471, with respect to any
 11 period prior to the first day of the first month which begins
 12 more than 10 days after the date of enactment of this Act.

13 **Part VIII—Manufacturers’ Excise Taxes**

14 **SEC. 481. AUTOMOBILES, TRUCKS, AND PARTS OR ACCES-**
 15 **SORIES.**

16 (a) **INCREASE IN TAX ON TRUCKS.**—Section 3403

17 (a) (tax on trucks, busses, etc.) is hereby amended by
 18 striking out “5 per centum” and inserting in lieu thereof
 19 “8 per centum”.

20 (b) **INCREASE IN TAX ON PASSENGER AUTOMOBILES**
 21 **AND MOTORCYCLES.**—Section 3403 (b) (tax on automo-
 22 bile chassis and bodies, etc.) is hereby amended to read as
 23 follows:

24 “(b) **OTHER CHASSIS AND BODIES, ETC.**—

25 “(1) Other automobile chassis and bodies, chassis

1 and bodies for trailers and semi-trailers (other than
2 house trailers) suitable for use in connection with pas-
3 senger automobiles, and motorcycles (including in each
4 case parts or accessories therefor sold on or in connection
5 therewith or with the sale thereof), except tractors, 10
6 per centum.

7 “(2) Chassis and bodies for house trailers (includ-
8 ing in each case parts or accessories therefor sold on or
9 in connection therewith or with the sale thereof), 7
10 per centum.

11 A sale of an automobile, trailer, or semi-trailer shall, for
12 the purposes of this subsection, be considered to be a sale of
13 the chassis and of the body.”

14 (c) INCREASE IN TAX ON PARTS OR ACCESSORIES.—
15 Section 3403 (c) (tax on parts or accessories for automomobiles, etc.) is hereby amended by striking out “5 per centum”
16 and inserting in lieu thereof “8 per centum”.

18 (d) REBUILT PARTS OR ACCESSORIES.—Section 3403
19 (c) (tax on parts or accessories) is hereby amended by
20 adding at the end thereof the following: “In determining
21 the sale price of a rebuilt automobile part or accessory there
22 shall be excluded from the price, in accordance with regula-
23 tions prescribed by the Secretary, the value of a like part or
24 accessory accepted in exchange.”

25 (e) TECHNICAL AMENDMENT.—Section 3403 (e)

1 (relating to certain credits against the tax imposed by section
2 3403) is hereby amended by striking out “in the case of an
3 article taxable under subsection (a), 5 per centum, and in
4 the case of an article taxable under subsection (b), 7 per
5 centum” and inserting in lieu thereof “in the case of an article
6 taxable under subsection (a), 8 per centum, in the case of
7 an article taxable under subsection (b) (1), 10 per centum,
8 and in the case of an article taxable under subsection (b)
9 (2), 7 per centum”.

10 (f) PARTS OR ACCESSORIES FOR FARM EQUIP-
11 MENT.—Section 3443 (a) (3) (A) is hereby amended
12 by striking out the period at the end of clause (v) and in-
13 serting in lieu thereof a semicolon, and by inserting after
14 clause (v) the following:

15 “(vi) in the case of articles taxable under
16 section 3403 (c) (other than spark plugs,
17 storage batteries, leaf springs, coils, timers, and
18 tire chains), used or resold for use as repair
19 or replacement parts or accessories for farm
20 equipment (other than equipment taxable
21 under subsection (a) or (b) of section
22 3403);”.

23 (g) EFFECTIVE DATE OF SUBSECTION (f).—The
24 amendment made by subsection (f) shall be effective with
25 respect to articles purchased (by the user thereof) on or

1 after the first day of the first month which begins more
2 than ten days after the date of the enactment of this Act.

3 (h) REMOVAL OF TAX ON TIRES FOR TOYS, ETC.—
4 Paragraph (1) of section 3400 (a) (relating to tax on
5 tires) is hereby amended by adding at the end thereof the
6 following: “The tax imposed by this paragraph shall not
7 apply to (A) tires which are not more than 20 inches in
8 diameter and not more than one and three-fourths inches
9 in cross-section, if such tires are of all-rubber construction
10 (whether hollow center or solid) without fabric or metal
11 reinforcement, or (B) tires of extruded tiring with internal
12 wire fastening agent.”

13 SEC. 482. NAVIGATION RECEIVERS SOLD TO THE UNITED
14 STATES.

15 (a) EXEMPTION ON SALES TO UNITED STATES OF
16 CERTAIN RADIO SETS.—Section 3404 (a) (relating to man-
17 ufacturers’ excise tax on radio receiving sets, etc.) is hereby
18 amended by adding at the end thereof the following new sen-
19 tence: “No tax shall be imposed under this subsection with
20 respect to the sale to the United States for its exclusive use
21 of a communication, detection, or navigation receiver of the
22 type used in commercial, military, or marine installations.”

23 (b) TAX-FREE SALES OF RADIO PARTS.—Section 3404
24 (b) (relating to manufacturers’ excise tax on component

1 parts of radio receiving sets, etc.) is hereby amended by add-
2 ing at the end thereof the following new sentence: "Under
3 regulations prescribed by the Secretary, no tax shall be im-
4 posed under this subsection with respect to the sale of any
5 article for use by the vendee as material in the manufacture or
6 production of, or as a component part of, communication,
7 detection, or navigation receivers of the type used in com-
8 mercial, military, or marine installations if such receivers
9 are to be sold by the vendee to the United States for its
10 exclusive use. If any article sold tax-free to such vendee
11 is not so used by him, or being so used the receiver is not so
12 sold, the vendee shall be considered as the manufacturer or
13 producer of such article."

14 (c) REFUND IN CASE OF USE OF PARTS.—Section
15 3443 (a) (1) (relating to credits and refunds) is hereby
16 amended to read as follows:

17 " (1) to a manufacturer or producer, in the amount
18 of any tax under this chapter which has been paid
19 with respect to the sale of—

20 " (A) any article (other than a tire, inner tube,
21 or automobile radio or television receiving set tax-
22 able under section 3404) purchased by him and
23 used by him as material in the manufacture or
24 production of, or as a component part of, an article

1 with respect to which tax under this chapter has
2 been paid, or which has been sold free of tax by
3 virtue of section 3442, relating to tax-free sales;

4 “(B) any article described in section 3404 (b)
5 purchased by him and used by him as material in
6 the manufacture or production of, or as a com-
7 ponent part of, communication, detection, or navi-
8 gation receivers of the type used in commercial,
9 military, or marine installations if such receivers
10 have been sold by him to the United States for its
11 exclusive use.”

12 (d) REFUND IN CASE OF RESALE TO UNITED
13 STATES.—Section 3443 (a) (3) (A) is hereby amended
14 by adding at the end thereof the following:

15 “(vii) in the case of a communication,
16 detection, or navigation receiver of the type
17 used in commercial, military, or marine installa-
18 tions, resold to the United States for its ex-
19 clusive use.”

20 (e) USE BY MANUFACTURER OF TAXABLE PARTS.—
21 Section 3444 (b) (relating to tax on use by manufacturer of
22 taxable articles) is hereby amended by adding at the end
23 thereof the following: “This section shall not apply with
24 respect to the use by the manufacturer, producer, or importer
25 of articles described in section 3404 (b) if such articles are

1 used by him as material in the manufacture or production of,
 2 or as a component part of, communication, detection, or
 3 navigation receivers of the type used in commercial, military,
 4 or marine installations if such receivers are to be sold to the
 5 United States for its exclusive use.”

6 (f) EFFECTIVE DATES.—The amendments made by
 7 subsections (a) and (b) shall take effect as provided in
 8 section 489. The amendments made by subsections (c) and
 9 (e) shall be applicable with respect to articles used in
 10 receivers sold to the United States on or after the first day of
 11 the first month which begins more than ten days after the
 12 date of the enactment of this Act, and the amendment made
 13 by subsection (d) shall be applicable with respect to
 14 articles resold to the United States on or after such
 15 first day.

16 **SEC. 483. REPEAL OF TAX ON CERTAIN SPORTING GOODS;**
 17 **INCREASE IN TAX ON REMAINING SPORTING**
 18 **GOODS.**

19 Section 3406 (a) (1) (relating to manufacturers’ ex-
 20 cise tax on sporting goods) is hereby amended to read as
 21 follows:

22 “(1) SPORTING GOODS.—Badminton nets; badminton
 23 rackets (measuring 22 inches over-all or more in length);
 24 badminton racket frames (measuring 22 inches over-all or
 25 more in length); badminton racket string; badminton shuttle-

1 cocks; badminton standards; baseballs; baseball bats (meas-
 2 uring 26 inches or more in length) ; baseball body protectors
 3 and shin guards; baseball gloves and mitts; baseball masks;
 4 billiard and pool tables (measuring 45 inches over-all or
 5 more in length) ; billiard and pool balls and cues for such
 6 tables; bowling balls and pins; clay pigeons and traps for
 7 throwing clay pigeons; croquet balls and mallets; curling
 8 stones; deck tennis rings, nets, and posts; fishing rods, creels,
 9 reels, and artificial lures, baits, and flies; golf bags (measur-
 10 ing 26 inches or more in length) ; golf balls; golf clubs
 11 (measuring 30 inches or more in length) ; polo balls; polo
 12 mallets; skis; ski poles; snow shoes; squash balls; squash
 13 rackets (measuring 22 inches over-all or more in length) ;
 14 squash racket frames (measuring 22 inches over-all or more
 15 in length) ; squash racket string; table tennis tables, balls,
 16 nets, and paddles; tennis balls; tennis nets; tennis rackets
 17 (measuring 22 inches over-all or more in length) ; tennis
 18 racket frames (measuring 22 inches over-all or more in
 19 length) ; tennis racket string; 15 per centum.”

20 **SEC. 484. ADDITION OF CERTAIN ITEMS TO THE TAX ON**
 21 **ELECTRIC, GAS, AND OIL APPLIANCES; RE-**
 22 **MOVAL OF TAX ON ELECTRIC HEATING PADS.**

23 Section 3406 (a) (3) (relating to manufacturers’
 24 excise tax on electric, gas, and oil appliances) is hereby
 25 amended (1) by striking out “electric heating pads and

1 blankets” and inserting in lieu thereof “electric blankets,
 2 sheets, and spreads”, and (2) by inserting after “juicers;”
 3 the following: “and the following appliances of the house-
 4 hold type: electric belt-driven fans; electric or gas
 5 clothes driers; electric door chimes; electric dehumidi-
 6 fiers; electric dishwashers; electric floor polishers and
 7 waxers; electric food choppers and grinders; electric hedge
 8 trimmers; electric ice cream freezers; electric mangles;
 9 electric motion or still picture projectors; electric pants
 10 pressers; electric shavers; and power lawn mowers;”.

11 **SEC. 485. ADJUSTMENTS OF TAX RATES ON PHOTOGRAPHIC**
 12 **APPARATUS AND FILM; REPEAL OF TAX ON**
 13 **CERTAIN ITEMS.**

14 (a) **ITEMS SUBJECT TO TAX.**—Section 3406 (a) (4)
 15 (relating to the manufacturers’ excise tax on photographic
 16 apparatus) is hereby amended to read as follows:

17 “(4) **PHOTOGRAPHIC APPARATUS.**—Cameras and
 18 camera lenses, and unexposed photographic film in rolls
 19 (including motion picture film), 20 per centum. The
 20 tax imposed under this paragraph shall not apply to
 21 X-ray cameras, to cameras weighing more than four
 22 pounds exclusive of lens and accessories, to still camera
 23 lenses having a focal length of more than one hundred
 24 and twenty millimeters, to motion picture camera lenses
 25 having a focal length of more than thirty millimeters, to

1 X-ray film, to film more than one hundred and fifty
2 feet in length, or to film more than twenty-five feet
3 in length and more than thirty millimeters in width.

4 Any person who acquires unexposed photographic film
5 not subject to tax under this paragraph and sells such
6 unexposed film in form and dimensions subject to tax
7 hereunder (or in connection with a sale cuts such film
8 to form and dimensions subject to tax hereunder) shall
9 for the purposes of this subsection be considered the
10 manufacturer of the film so sold by him."

11 (b) FLOOR STOCKS REFUNDS ON BULBS.—

12 (1) With respect to any photo-flash or other bulb
13 upon which the tax imposed under section 3406 (a)
14 (4) of the Internal Revenue Code has been paid, and
15 which on the effective date specified in section 489 of
16 this Act is held by any person and intended for sale, or
17 for use in the manufacture or production of any article
18 intended for sale, there shall be credited or refunded to
19 the manufacturer or producer of such bulb (without
20 interest), subject to such regulations as may be pre-
21 scribed by the Secretary, an amount equal to so much
22 of the tax so paid as has been paid by such manufacturer
23 or producer to such person as reimbursement for the
24 elimination on such effective date of the tax on such bulb,

1 if claim for such credit or refund is filed with the Secre-
2 tary prior to the expiration of three months after such
3 effective date. No credit or refund shall be allowable
4 under this paragraph for any bulb held by any person
5 for sale which was purchased by such person as a com-
6 ponent part of any other article.

7 (2) No person shall be entitled to credit or refund
8 under paragraph (1) unless he has in his possession such
9 evidence of the inventories with respect to which he has
10 made the reimbursements described in paragraph (1) as
11 the regulations under paragraph (1) shall prescribe.

12 (3) All provisions of law, including penalties, ap-
13 plicable with respect to the tax imposed under section
14 3406 (a) (4) of the Internal Revenue Code shall,
15 insofar as applicable and not inconsistent with this sub-
16 section, be applicable in respect of the credits and refunds
17 provided for in this subsection to the same extent as if
18 such credits or refunds constituted credits or refunds of
19 such taxes.

20 **SEC. 486. IMPOSITION OF TAX ON MECHANICAL PENCILS**
21 **AND FOUNTAIN AND BALL POINT PENS.**

22 Chapter 29 (relating to manufacturers' excise and im-
23 port taxes) is hereby amended by adding after section 3407
24 the following new section:

1 **“SEC. 3408. TAX ON MECHANICAL PENCILS AND FOUNTAIN**
2 **AND BALL POINT PENS.**

3 “(a) IMPOSITION OF TAX.—There shall be imposed
4 on the following articles, sold by the manufacturer, producer,
5 or importer, a tax equal to 20 per centum of the price for
6 which so sold: Mechanical pencils, fountain pens, and ball
7 point pens.

8 “(b) EXEMPTION IF ARTICLE TAXABLE AS JEW-
9 ELRY.—No tax shall be imposed under this section on any
10 article taxable under section 2400 (relating to jewelry tax).”

11 **SEC. 487. REPEAL OF TAX ON ELECTRICAL ENERGY.**

12 (a) REPEAL OF TAX.—Section 3411 (relating to tax
13 on electrical energy for domestic or commercial consump-
14 tion), and sections 3441 (d), 3444 (b), and 3447 (c)
15 (related provisions), are hereby repealed.

16 (b) EFFECTIVE DATE.—

17 (1) Except as provided in paragraph (2), the
18 provisions of subsection (a) shall apply to electrical
19 energy sold on or after the first day of the first month
20 which begins more than ten days after the date of the
21 enactment of this Act.

22 (2) In the case of electrical energy sold which is
23 billed to the customer for a period beginning before the
24 effective date specified in paragraph (1) and ending
25 on or after such date, the provisions of subsection (a)

shall apply to that portion of the amount billed for the electrical energy sold during such period which the number of days in such period on and after such effective date bears to the total number of days in such period. This section shall not apply to electrical energy sold before such effective date for which a bill was rendered prior to such date.

SEC. 488. TAX ON GASOLINE.

(a) **INCREASE IN RATE.**—Section 3412 (a) is hereby amended by striking out “1½ cents” and inserting in lieu thereof “2 cents”.

(b) **FLOOR STOCKS TAX.**—Section 3412 is hereby amended by adding at the end thereof the following new subsection:

“(f) **1951 FLOOR STOCKS TAX.**—On gasoline subject to tax under this section which, on the effective date of section 488 (a) of the Revenue Act of 1951, is held and intended for sale, there shall be levied, assessed, collected, and paid a floor stocks tax at the rate of ½ cent per gallon. The tax shall not apply to gasoline in retail stocks held at the place where intended to be sold at retail, nor to gasoline held for sale by the manufacturer, producer, or importer thereof.”

SEC. 489. EFFECTIVE DATE OF PART VIII.

Except as otherwise expressly provided in this part, the amendments made by this part shall take effect on the

1 first day of the first month which begins more than 10 days
2 after the date of the enactment of this Act.

3 **Part IX—Miscellaneous Excise Tax Amendments**

4 **SEC. 491. REDUCTION OF TAX ON TELEGRAPH DISPATCHES.**

5 (a) **REDUCTION OF TAX.**—The first sentence of section
6 3465 (a) (1) (B) is hereby amended to read as follows:
7 “On the amount paid within the United States for each
8 telegraph, cable, or radio dispatch or message a tax equal
9 to 20 per centum of the amount so paid, except that in the
10 case of each international telegraph, cable, or radio dispatch
11 or message the rate shall be 10 per centum.”

12 (b) **CLERICAL AMENDMENT.**—The table contained in
13 section 1650 (relating to the war tax rates of certain miscel-
14 laneous taxes) is hereby amended by striking out the
15 following:

“3465 (a) (1) (B) (in- sofar as it relates to domestic telegraph, cable, and radio dis- patches).	Domestic Telegraph, Cable, or Radio Dispatches.	15 per centum.....	25 per centum.”
---	--	--------------------	-----------------

16 (c) **EFFECTIVE DATE.**—Subject to the provisions of
17 subsection (d), the amendments made by this section shall
18 apply with respect to amounts paid on or after the rate reduc-
19 tion date (as defined in subsection (e)) for services rendered
20 on or after such date.

21 (d) **AMOUNTS PAID PURSUANT TO BILLS REN-**
22 **DERED.**—The amendments made by this section shall not
23 apply with respect to amounts paid pursuant to bills rendered

1 prior to the rate reduction date. In the case of amounts paid
 2 pursuant to bills rendered on or after the rate reduction date
 3 for services for which no previous bill was rendered, the
 4 amendments made by this section shall apply except with
 5 respect to such services as were rendered more than 2
 6 months before such date. In the case of services rendered
 7 more than 2 months before such date the provisions of
 8 sections 1650 and 3465 of the Internal Revenue Code in
 9 effect at the time such services were rendered shall be
 10 applicable to the amounts paid for such services.

11 (e) **RATE REDUCTION DATE.**—For the purposes of this
 12 section the term “rate reduction date” means the first day
 13 of the first month which begins more than 10 days after
 14 the date of the enactment of this Act.

15 **SEC. 492. EXEMPTION OF FISHING TRIPS FROM TAX ON**
 16 **TRANSPORTATION.**

17 (a) **EXEMPTION.**—Section 3469 (b) (relating to
 18 exemption of certain trips from the tax on transportation of
 19 persons) is hereby amended by striking out “or to amounts”
 20 and inserting in lieu thereof “to amounts”, and by inserting
 21 after the words “one month or less” the following “, or to
 22 amounts paid for transportation by boat for the purpose of
 23 fishing from such boat”.

24 (b) **EFFECTIVE DATE.**—The amendment made by sub-

1 section (a) shall apply to amounts paid on or after the first
2 day of the first month which begins more than 10 days after
3 the date of the enactment of this Act for transportation on
4 or after such first day.

5 **SEC. 493. TRANSPORTATION OF OIL BY WATER.**

6 (a) **IMPOSITION OF TAX.**—Chapter 30 (relating to
7 transportation and communications taxes) is hereby amended
8 by adding at the end thereof the following new subchapter:

9 **“SUBCHAPTER F—TRANSPORTATION OF OIL BY**
10 **WATER**

11 **“SEC. 3476. TRANSPORTATION OF OIL BY WATER.**

12 “(a) **TAX.**—There shall be imposed upon all transporta-
13 tion (other than transportation taxable under section 3475)
14 of crude petroleum and liquid products thereof by water,
15 from one point in the United States to another, a tax equal to
16 3 per centum of the fair charge for such transportation.

17 “(b) **FAIR CHARGE DEFINED.**—For the purposes of
18 this section, the fair charge for transportation shall be com-
19 puted on—

20 “(1) the basis of the charge for such transportation
21 made by persons performing like transportation for hire,
22 as determined by the Secretary, or

23 “(2) if no such charge exists, then on the basis
24 of a reasonable charge for such transportation, as deter-
25 mined by the Secretary,

1 “(c) EXEMPTION FROM TAX.—The tax imposed by
2 this section shall not apply to—

3 “(1) transportation within the premises of a pro-
4 ducing property, refinery, bulk plant, terminal, or gaso-
5 line plant;

6 “(2) transportation in a vessel of a product to be
7 used (without unloading) as fuel supplies, ship’s stores,
8 sea stores, or legitimate equipment, on such vessel;

9 “(3) transportation by and for the exclusive use of
10 the Government of the United States, or by and for the
11 exclusive use of any State, Territory, or political subdivi-
12 sion thereof, or the District of Columbia; or

13 “(4) products transported by an individual for his
14 personal use and not for business purposes.

15 “(d) RETURN AND PAYMENT OF TAX.—The tax im-
16 posed by this section shall be paid by the person furnishing
17 the transportation subject to the tax. Every person liable for
18 the tax imposed under this section shall make returns and pay
19 such taxes to the collector for the district in which is located
20 his principal place of business or, if he has no principal place
21 of business in the United States, then to the collector at
22 Baltimore, Maryland. Such returns shall contain such infor-
23 mation and be made at such times and in such manner as the
24 Secretary by regulations may prescribe.”

25 (b) TECHNICAL AMENDMENT.—Section 3475 (a)

1 (relating to tax on transportation of property) is hereby
2 amended by adding at the end thereof the following new
3 sentence: "In the case of transportation of crude petroleum
4 and liquid products thereof by water from one point in the
5 United States to another, if (other than in the case of an
6 arm's length transaction) the amount paid for such trans-
7 portation is less than the fair charge therefor (as defined in
8 section 3476 (b)) the tax imposed by section 3476, and not
9 the tax imposed by this section, shall apply with respect to
10 such transportation."

11 (c) EFFECTIVE DATE.—The amendments made by this
12 section shall be applicable only with respect to transportation
13 which begins on or after the first day of the first month
14 which begins more than ten days after the date of the
15 enactment of this Act.

16 **SEC. 494. ARTICLES FROM FOREIGN TRADE ZONES.**

17 (a) IMPORTED ARTICLES.—Upon all articles specified
18 in section 2000 (c) (2), 2800 (a), 3030 (a), or 3150
19 (a) of the Internal Revenue Code on which the internal
20 revenue taxes imposed by law have been determined,
21 pursuant to section 3 of the Act of June 18, 1934, as
22 amended (U. S. C., title 19, sec. 81c), prior to the
23 effective date of the rates of tax imposed on such
24 articles by this Act, and which on or after such effective
25 date are brought from foreign trade zones into customs

1 territory of the United States, there shall be levied, assessed,
2 collected, and paid on such articles, in addition to the tax
3 so determined, an additional tax at rates equal to the in-
4 creases in rates of tax made applicable to such articles by
5 this Act. The tax imposed by this subsection shall be col-
6 lected, paid, and accounted for at the same time and in the
7 same manner as tax on such article is collected, paid, and
8 accounted for when brought from the foreign trade zone
9 into the customs territory.

10 (b) PREVIOUSLY TAXPAID ARTICLES.—Upon all tax-
11 paid articles specified in section 2000 (c) (2), 2800 (a),
12 3030 (a), or 3150 (a) of the Internal Revenue Code
13 which have been taken into foreign trade zones from
14 the customs territory of the United States and placed
15 under the supervision of the collector of customs, pur-
16 suant to the second proviso of section 3 of the Act
17 of June 18, 1934, as amended (U. S. C., title 19, sec.
18 81c), prior to the effective date of the rates of tax imposed
19 on such articles by this Act, and which on or after such
20 effective date are (without loss of identity) returned from
21 foreign trade zones to customs territory of the United States,
22 there shall be levied, assessed, collected, and paid on such
23 articles an additional tax at rates equal to the increases in
24 rates of tax made applicable to such articles by this Act.

1 The tax imposed by this subsection on any article shall be
2 collected, paid, and accounted for at the same time and in
3 the same manner as if such article had been taken into the
4 foreign trade zone free of tax.

5 **TITLE V—MISCELLANEOUS PROVISIONS**
6 **AND AMENDMENTS**

7 **SEC. 501. EXEMPTION OF CERTAIN ORGANIZATIONS FROM**
8 **INCOME TAX FOR PRIOR TAXABLE YEARS.**

9 Section 302 of the Revenue Act of 1950 (relating to
10 exemption of certain organizations for past years) is amended
11 by adding at the end thereof the following new subsection:

12 “(d) PROFITS INURING TO THE BENEFIT OF CERTAIN
13 EDUCATIONAL ORGANIZATIONS.—For any taxable year
14 beginning prior to January 1, 1951, an organization operated
15 for the primary purpose of carrying on a trade or business
16 for profit, no part of the net earnings of which inures to the
17 benefit of any private shareholder or individual and all of the
18 net earnings of which inure to the benefit of an educational
19 organization which normally maintains a regular faculty and
20 curriculum and normally has a regularly organized body of
21 pupils or students in attendance at the place where its educa-
22 tional activities are regularly carried on, shall not be denied
23 exemption from taxation under section 101 of the Internal
24 Revenue Code on the ground that it is carrying on a trade or
25 business for profit.”

1 SEC. 502. EXCESS PROFITS CREDIT BASED ON INCOME.

2 (a) PERCENTAGE OF AVERAGE BASE PERIOD NET
3 INCOME TAKEN INTO ACCOUNT.—

4 (1) IN GENERAL.—Paragraph (1) (A), and
5 paragraph (2), of section 435 (a) (relating to excess
6 profits credit based on income) are each amended by
7 striking out “85 per centum” and inserting in lieu
8 thereof “75 per centum”.

9 (2) TAXABLE YEARS BEGINNING BEFORE JANUARY
10 1, 1951, AND ENDING AFTER DECEMBER 31, 1950.—
11 Section 435 (a) is hereby amended by adding at the end
12 thereof the following new paragraph:

13 “(4) TAXABLE YEARS BEGINNING IN 1950 AND
14 ENDING IN 1951.—In the case of a taxable year be-
15 ginning before January 1, 1951, and ending after
16 December 31, 1950, there shall be used, for the pur-
17 poses of paragraph (1) (A) and paragraph (2), in
18 lieu of 85 per centum of the average base period net
19 income, an amount equal to the sum of—

20 “(A) that portion of an amount equal to 85
21 per centum of the average base period net income
22 which the number of days in such taxable year prior
23 to January 1, 1950, bears to the total number of
24 days in such taxable year, plus

25 “(B) that portion of an amount equal to 75

1 per centum of the average base period net income
2 which the number of days in such taxable year after
3 December 31, 1950, bears to the total number of
4 days in such taxable year.”

5 (b) EFFECTIVE DATE.—The amendments made by sub-
6 section (a) shall be applicable only with respect to taxable
7 years ending after December 31, 1950.

8 **SEC. 503. ESTATE AND GIFT TAX TREATMENT OF UNITED**
9 **STATES BONDS HELD BY CERTAIN NONRESI-**
10 **DENT ALIENS.**

11 (a) ESTATE TAX.—Effective with respect to estates of
12 decedents dying after February 10, 1939, section 861 (re-
13 lating to the computation of the net estate of a decedent
14 nonresident not a citizen of the United States) is hereby
15 amended by adding at the end thereof the following new
16 subsection:

17 “(c) UNITED STATES BONDS.—For the purposes of
18 subsection (a), the value of the gross estate (determined
19 as provided in section 811) of a decedent who was not
20 engaged in business in the United States at the time of his
21 death—

22 “(1) shall not include obligations issued by the
23 United States prior to March 1, 1941; and

24 “(2) shall include obligations issued by the United
25 States on or after March 1, 1941, but only if the dece-

1 dent died after the date of the enactment of the Revenue
2 Act of 1951.”

3 (b) GIFT TAX.—Effective with respect to gifts made
4 after the date of enactment of this Act, section 1000 (b)
5 (relating to application of gift tax) is hereby amended by
6 adding at the end thereof the following: “In the case of such
7 a nonresident who is not engaged in business in the United
8 States at the time of a transfer of obligations issued by the
9 United States, the tax shall apply in respect of any such
10 obligations only if issued on or after March 1, 1941.”

11 **SEC. 504. REORGANIZATION PLAN NUMBERED 26 OF 1950.**

12 The provisions of Reorganization Plan Numbered 26
13 of 1950 shall be applicable to all functions vested by this
14 Act in any officer, employee, or agency of the Department
15 of the Treasury.

A BILL

To provide revenue, and for other purposes.

By Mr. DOUGHTON

JUNE 15, 1951

Referred to the Committee on Ways and Means

REVENUE ACT OF 1951

REPORT

OF THE

COMMITTEE ON WAYS AND MEANS HOUSE OF REPRESENTATIVES

TO ACCOMPANY

H. R. 4473

A BILL TO PROVIDE REVENUE, AND FOR OTHER PURPOSES



JUNE 18, 1951.—Committed to the Committee of the Whole House
on the State of the Union and ordered to be printed

UNITED STATES
GOVERNMENT PRINTING OFFICE
WASHINGTON : 1951

CONTENTS

	Page
I. General statement.....	1
II. Revenues estimates.....	2
III. Changes in the individual income tax.....	3
A. Defense tax.....	3
1. Description.....	3
2. Effect on the rate structure.....	4
3. Reasons for the rate increases selected.....	8
B. Head-of-household provision.....	8
1. Description.....	8
2. Effect on the rate structure.....	9
3. Reasons for adopting the head-of-household provision.....	11
C. Distribution of tax burden.....	11
IV. General corporate tax changes.....	13
V. Structural changes in the income taxes.....	16
A. Withholding on dividends, interest, and royalties.....	16
1. General statement.....	16
2. Definition of dividends for withholding purposes.....	19
3. Definition of interest for withholding purposes.....	20
4. Definition of royalties for withholding purposes.....	21
5. Special rules applying to partnerships, estates, and trusts.....	21
6. Special rules governing regulated investment companies and personal holding companies.....	21
7. Special provision for tax-exempt organizations.....	22
8. Effective date.....	22
B. Life insurance companies.....	22
C. Surtax exemptions and minimum excess-profits tax credit of related corporations.....	23
D. Offset of short- and long-term capital gains and losses.....	24
E. Collapsible corporations.....	25
F. Sale of property to controlled corporations.....	26
G. Dealers in securities.....	27
H. Gain from sale or exchange of the taxpayer's residence.....	27
I. Percentage depletion.....	29
J. Expenditures in the development of mines.....	30
K. Coal royalties.....	31
L. Sales of livestock used for breeding, dairy, or draft purposes.....	32
M. Family partnerships.....	32
N. Venture capital companies.....	34
O. Exemption of educational "feeder" corporations for prior years.....	35
P. Additional withholding upon agreement by employer and employee.....	36
Q. United States bonds held by nonresident aliens.....	36
VI. Excise tax changes.....	37
A. Alcoholic beverages.....	38
1. Distilled spirits.....	38
2. Beer.....	39
3. Wines.....	39
4. Occupational taxes on dealers in liquor.....	41

VI. Excise tax changes—Continued	Page
B. Tobacco products	41
C. Manufacturers' Excises	42
1. Gasoline and Diesel fuel	42
2. Passenger cars and motorcycles	43
3. Automobile trucks, buses, and truck trailers	44
4. Automotive parts and accessories	44
5. Tires on toys, etc.	46
6. Electric, gas, and oil appliances	46
7. Navigation receivers sold to the United States Government	47
8. Sporting goods	47
9. Photographic apparatus and film	48
10. Electrical energy	49
11. Fountain pens, ball-point pens, and mechanical pencils	50
D. Retail excises	50
1. Cigarette, cigar, and pipe lighters	50
2. Toilet preparations	50
E. Transportation and communication excises	51
1. Domestic telegraph, cable, and radio messages	51
2. Transportation of persons	52
3. Transportation of property	52
F. Excises on amusements or recreation	53
1. General admissions	53
2. Cabarets	54
3. Bowling alleys and billiard and pool tables	54
G. Excises on gambling	54
1. Tax on wagers	55
2. Occupational tax	60
3. Coin-operated gaming devices	60
H. Floor stock taxes	60
VII. Detailed Discussion of the Technical Provisions of the Bill	67

TITLE I—INCREASE IN INCOME TAX RATES

PART I—INDIVIDUAL INCOME TAXES

Sec. 101. Defense tax	67
Sec. 102. Individuals with adjusted gross income of less than \$5,000	69
Sec. 103. Computation of tax in case of certain joint returns	69
Sec. 104. Effective date of part I	70

PART II—CORPORATION INCOME TAXES

Sec. 121. Increase in rate of corporation normal tax	70
Sec. 122. Credits of corporations	71
Sec. 123. Surtax exemptions and certain credits of related corporations	72
Sec. 124. Computation of alternative capital gains tax	77
Sec. 125. Effective date	77

PART III—FISCAL YEAR TAXPAYERS

Sec. 131. Fiscal year taxpayers	77
---------------------------------	----

TITLE II—WITHHOLDING OF TAX AT SOURCE

PART I—WITHHOLDING OF TAX AT SOURCE ON DIVIDENDS, INTEREST AND ROYALTIES

Sec. 201. Collection of income tax at source on dividends, interest, and royalties	81
Sec. 202. Credit for tax withheld	95
Sec. 203. Credits in case of organizations exempt from tax	100
Sec. 204. Technical amendments	101

CONTENTS

V

PART II—INCREASE IN WITHHOLDING OF TAX AT SOURCE OF WAGES

	Page
Sec. 221. Percentage method of withholding.....	104
Sec. 222. Wage bracket withholding.....	104
Sec. 223. Additional withholding of tax on wages upon agreement by employer and employee.....	104
Sec. 224. Effective date.....	104

TITLE III—MISCELLANEOUS INCOME TAX AMENDMENTS

Sec. 301. Tax treatment in case of head of household.....	105
Sec. 302. Expenditures in the development of mines.....	107
Sec. 303. Gain from sale or exchange of taxpayer's residence.....	108
Sec. 304. Percentage depletion.....	114
Sec. 305. Capital gains and losses.....	114
Sec. 306. Sales of livestock.....	117
Sec. 307. Tax treatment of coal royalties.....	117
Sec. 308. Collapsible corporations.....	118
Sec. 309. Dealers in securities—capital gains and ordinary losses.....	119
Sec. 310. Treatment of gain on sales of certain property between spouses and between an individual and a controlled corporation.....	120
Sec. 311. Life insurance companies.....	122
Sec. 312. Tax treatment of certain investment companies.....	122
Sec. 313. Family partnerships.....	124

TITLE IV—EXCISE TAXES

PART I—TAX ON ADMISSIONS AND CABARETS

Sec. 401. Removal of tax on free admissions.....	124
Sec. 402. Exemptions from admissions tax.....	124
Sec. 403. Effective date of amendments relating to admissions.....	126
Sec. 404. Tax on cabarets, roof gardens, etc.....	126

PART II—TAX ON CIGARETTES

Sec. 421. Tax on cigarettes.....	126
Sec. 422. Floor stocks tax on cigarettes.....	126

PART III—RETAILERS' EXCISE TAXES

Sec. 431. Tax on lighters.....	127
Sec. 432. Retailers' excise tax on toilet preparations.....	127
Sec. 433. Effective date of part III.....	127

PART IV—DIESEL FUEL

Sec. 441. Diesel fuel used in highway vehicles.....	128
---	-----

PART V—LIQUOR

Secs. 451, 452, and 453. Distilled spirits, wines, and fermented malt liquors.....	128
Sec. 454. Clerical amendment.....	129
Sec. 455. Effective date of part V.....	129

PART VI—OCCUPATIONAL TAXES

Sec. 461. Dealers in liquors.....	129
Sec. 462. Drawback in the case of distilled spirits used in the manufacture of certain nonbeverage products.....	129
Sec. 463. Tax on coin-operated gaming devices.....	130
Sec. 464. Tax on bowling alleys and billiard and pool tables.....	130
Sec. 465. Effective date of part VI.....	130

PART VII—WAGERING

Sec. 471. Wagering taxes.....	Page 130
Sec. 472. Effective date of part VII.....	130

PART VIII—MANUFACTURERS' EXCISE TAXES

Sec. 481. Automobiles, trucks, and parts or accessories.....	131
Sec. 482. Navigation receivers sold to the United States.....	132
Sec. 483. Repeal of tax on certain sporting goods; increase in tax on remaining sporting goods.....	132
Sec. 484. Addition of certain items to the tax on electric, gas, and oil appliances; removal of tax on electric heating pads.....	133
Sec. 485. Adjustments of tax rates on photographic apparatus and film; repeal of tax on certain items.....	133
Sec. 486. Imposition of tax on mechanical pencils and fountain and ball point pens.....	134
Sec. 487. Repeal of tax on electrical energy.....	134
Sec. 488. Tax on gasoline.....	135
Sec. 489. Effective date of part VIII.....	135

PART IX—MISCELLANEOUS EXCISE TAX AMENDMENTS

Sec. 491. Reduction of tax on telegraph dispatches.....	135
Sec. 492. Exemption of fishing trips from tax on transportation.....	136
Sec. 493. Transportation of oil by water.....	136
Sec. 494. Articles from foreign trade zones.....	137

TITLE V—MISCELLANEOUS PROVISIONS AND AMENDMENTS

Sec. 501. Exemption of certain organizations from income tax for prior taxable years.....	138
Sec. 502. Excess profits credit based on income.....	138
Sec. 503. Estate and gift tax treatment of United States bonds held by certain nonresident aliens.....	139
Sec. 504. Reorganization Plan Numbered 26 of 1950.....	140
Minority views.....	141

REVENUE ACT OF 1951

JUNE 18, 1951.—Committed to the Committee of the Whole House on the State of the Union and ordered to be printed

Mr. DOUGHTON, from the Committee on Ways and Means, submitted the following

REPORT

[To accompany H. R. 4473]

The Committee on Ways and Means, to whom was referred the bill (H. R. 4473) to provide revenue, and for other purposes, having considered the same, report favorably thereon without amendment and recommend that the bill do pass.

I. GENERAL STATEMENT

The military action in Korea, coupled with the general threat to world peace, has made it necessary to provide extraordinary increases in revenues to meet essential national defense expenditures. Since the outbreak of hostilities, the Committee on Ways and Means has been almost continuously engaged in the development of a balanced tax program to meet this objective. This bill represents the third step in this program. The first step was the Revenue Act of 1950 enacted September 23, 1950. The second step was the Excess Profits Tax Act of 1950 enacted January 3, 1951.

The result of these three steps will be to add to the Federal revenues \$17 billion at calendar year 1951 levels and in a full year of operation. Of this amount \$6.1 billion was obtained under the Revenue Act of 1950; \$3.9 billion under the Excess Profits Tax Act of 1950; and an additional \$7.2 billion is estimated to be provided under this bill.

The following is a breakdown of the increases imposed under the various acts:

	[In millions]
The Revenue Act of 1950—	
Individuals.....	\$3, 438
Corporations.....	2, 290
Excises.....	73
Other.....	300
Total.....	6, 101
The Excess Profits Tax Act of 1950—Corporate income and excess-profits taxes.....	3, 850
The committee bill—	
Individuals.....	2, 847
Corporations.....	2, 855
Excises.....	1, 252
Other.....	245
Total.....	7, 199

The effect of these three steps is to increase the over-all tax revenue from individuals by 31.4 percent over the amount which would have been due under the law in effect prior to hostilities in Korea. Corporation taxes have been increased under these three steps by 57.9 percent. Excises have been increased by 15.6 percent.

The committee opened public hearings on this bill on February 5 and the hearings were not closed until April 2. The committee has been in continuous executive session since that time.

This bill is estimated to increase tax liabilities by \$7.2 billion in a full year's operation. This is the largest amount of additional money collected from a tax bill in the history of this country. It is anticipated that this bill, with the revenues already provided under existing law, will result in collections in the fiscal year 1952, of \$66.3 billion.

Changes are provided by your committee's bill in all of the major tax areas. Individual income taxes are raised by 12½ percent effective September 1, 1951, and heads of households are given half the benefits of income splitting for future years. The income-tax rate on corporations is raised by 5 percentage points, the excess profits credit is lowered to include only 75 percent of 1946-49 earnings, and the over-all ceiling is increased to 70 percent. The major changes in the excise taxes provide increases in the taxes on alcoholic beverages, tobacco, gasoline, and automobiles, and impose a new tax on wagering. Among the structural changes the most important are those providing for the withholding on dividends and certain interest and royalty payments.

II. REVENUE ESTIMATES

Table 1 shows the estimated increase in tax liabilities under the committee bill in a full year of operation and also the effect of the bill on collections in the fiscal year 1952. Both the increase in liabilities and the increase in collections in the fiscal year 1952 are shown by major revenue sources.

Although it is estimated that the bill will increase tax liabilities by approximately \$7,200 million, collections in the fiscal year 1952 are expected to be increased by \$5,429 million both because the changes will not be fully effective in the fiscal year 1952 and because collections tend to lag behind the incurring of liabilities.

The increase in excise tax collections in the fiscal year 1952 assumes that the changes in these taxes become effective as of September 1, 1951, the same date as is provided in the bill for increased withholding from individuals.

Table 12 appearing on page 62 summarizes the major provisions of this bill and indicates their effect on tax liabilities.

TABLE 1.—*Estimated increase in tax liabilities under the committee bill in a full year of operation and the effect of the bill on collections in the fiscal year 1952*

[In millions]

	Increase in a full year of operation	Increase in collections in the fiscal year 1952
Individual income tax.....	\$2,847	\$1,947
Corporate income and excess profits tax.....	¹ 2,855	¹ 1,740
Excise taxes.....	1,252	² 1,037
Structural changes.....	245	³ 705
Total.....	7,199	5,429

¹ Net increase after allowing for reduction in individual income taxes due to lower dividends.

² Assumes that excise tax changes will become effective Sept. 1, 1951.

³ This larger amount is due primarily to the acceleration of collections on withholding on dividends.

III. CHANGES IN THE INDIVIDUAL INCOME TAX

The committee bill provides for a special "defense tax," a 12½ percent increase in the existing tax. This tax applies not only to the tax on ordinary income, but also to the tax on capital gains. This change, in effect, is made as of September 1, 1951, the date when the increased withholding becomes effective. Heads of households are given approximately one-half the benefits of income splitting now enjoyed by married persons. For calendar year taxpayers this latter change is effective beginning with 1952.

It is estimated that in a full year of operation these changes will increase collections by \$2,847 million. It is anticipated that the rate change alone would increase revenues by \$2,903 million, of which \$49 million is attributable to the 12½-percent increase in the alternative rate on capital gains. However, \$56 million will be lost by extending one-half of the benefits of income splitting to heads of households.

Since in effect the defense tax does not go into operation until September 1 and the head-of-household provision for most taxpayers will not be operative until January 1, 1952, collections in the fiscal year 1952, ending June 30, 1952, will not fully reflect the changes made in this bill. Therefore, fiscal year 1952 collections are expected to be increased by only about 68 percent of the \$2,847 million or by \$1,947 million.

A. DEFENSE TAX

1. Description

For taxable years beginning after August 31, 1951, the bill increases the total normal tax and surtax by 12½ percent. The alternative capital-gains tax of 25 percent is also increased by 12½ percent. In addition the effective rate limitation, or the maximum combined normal tax, surtax and defense tax on total net income, is raised from 87 to 90 percent.

For the calendar year 1951 a 4-percent defense tax is provided for normal tax, surtax, and the alternative tax on net long-term capital gains, which approximates one-third of the 12½-percent defense-tax increase provided for future years. This is roughly the equivalent of making the full 12½-percent increase effective September 1, 1951. The bill also raises the maximum effective rate limitation for 1951 from 87 percent to 88 percent, or by one-third of the increase provided for future years.

To prevent the application of unusually high bracket rates for taxable years beginning after August 31, 1951, while the defense tax is in effect, the top surtax bracket rate is to be 81 percent on surtax net incomes¹ of \$80,000 and over. Combining this surtax with the 3-percent normal tax and the defense tax means a top-bracket rate of 94.5 percent on surtax net incomes in excess of \$80,000 as contrasted to the 91-percent rate on surtax net incomes in excess of \$200,000 under present law. However, the present law surtax rates, applying to surtax net income above \$80,000, remain in the code since they may be used again after the defense tax is removed.

Because, for 1952 and subsequent years, the surtax rate schedule in present law is in effect "cut off" at the total rate of 94.5 percent, reached at an income level of \$80,000, it is necessary to provide a special surtax table for the upper part of the rate schedule for the calendar year 1951 in order to give individuals with incomes in this area about one-third of the tax increase they will receive for future years.

For individuals with fiscal years beginning before and ending after September 1, 1951, the tax is to be prorated between the computations based on the present law rates and on rates including the 12½-percent increase, according to the number of months before and after September 1, 1951.

New withholding tables are provided to reflect the increased taxes and provide for withholding at approximately 20 percent as contrasted to the 18 percent provided by present law. Similar adjustments are made for the percentage method of withholding. A withholding rate of approximately 20 percent collects the full amount ordinarily due on the beginning rate of 22.5 percent after allowance for the standard deduction.

2. Effect on the rate structure

The marginal rates, or the rate of tax applying to the top dollar of income, including the defense tax provided by this bill for 1952 and subsequent years, are shown in table 2, which compares these rates with those under present law. Under the defense tax the rates will range from 22.5 percent in the bottom bracket to 94.5 percent at the top. The 22.5 percent represents a 2.5 percentage-point increase over present law.

For married couples the top marginal rate of 94.5 percent under the defense tax applies to surtax net incomes in excess of \$160,000. The marginal rates applying to income in excess of \$160,000 for married couples under present law range from 89 percent to 91 percent. For single individuals the top marginal rate under the defense tax is the same as that for married couples, 94.5 percent, but it applies at the surtax net income level of \$80,000. The present law, in the case of

¹Income after deductions and exemptions.

single individuals, applies marginal rates of 84 percent to 91 percent on incomes at, and in excess of, this level. The income splitting provision of the Revenue Act of 1948 accounts for the fact that the 94.5 percent rate is reached at a surtax net income level of \$80,000 in the case of single individuals, but not until \$160,000 in the case of married couples.

TABLE 2.—*Marginal individual income tax rates under present law, and the committee bill for calendar year 1952, by selected surtax net income levels*

Selected surtax net income levels (in thousands) ¹	Single persons		Married persons	
	Present law	Committee bill	Present law	Committee bill
	<i>Percent</i>	<i>Percent</i>	<i>Percent</i>	<i>Percent</i>
\$0 to \$2.....	20	22.50	20	22.50
\$2 to \$4.....	22	24.75		
\$4 to \$6.....	26	29.25		
\$6 to \$8.....	30	33.75	22	24.75
\$8 to \$10.....	34	38.25		
\$10 to \$12.....	38	42.75		
\$14 to \$16.....	47	52.88	30	33.75
\$20 to \$22.....	56	63.00	38	42.75
\$26 to \$28.....	62	69.75	43	48.38
\$32 to \$36.....	65	73.13	50	56.25
\$40 to \$44.....	69	77.63	56	63.00
\$50 to \$52.....	75	84.38	59	66.38
\$60 to \$64.....	78	87.75	62	69.75
\$70 to \$76.....	81	91.13	65	73.13
\$80 to \$88.....	84	94.50	69	77.63
\$90 to \$100.....	87		72	81.00
\$100 to \$120.....	89		75	84.38
\$150 to \$160.....	90		81	91.13
\$200 to \$300.....	91	94.50	89	94.50
Over \$400.....			91	

¹ Income after business and personal deductions and exemptions.

The 12½-percent increase when added to the 25-percent alternative tax on net long-term capital gains of individuals increases the total tax on such gains to 28.125 percent.

Table 3 shows the effective, or average, rates of tax for selected net income levels under the new defense tax for calendar year 1952 and subsequent years and compares these rates with those under present law. This effective rate table differs in two important respects from the marginal rates previously shown: (1) The effective rates show the cumulative rate on all income up to any specific income level and therefore represent the average rates at which the entire income is taxed, and (2) they are based on net income before exemptions and therefore show the effect of exemptions on the actual tax rate paid. On the same basis as the effective rates, table 4 shows the amount of tax paid at selected net income levels under the new defense tax for calendar year 1952 and subsequent years, and compares these taxes with those under present law.

TABLE 3.—Comparison of effective individual income tax rates under the committee bill and present law

A. SINGLE PERSON, NO DEPENDENTS

Selected net income levels ¹	Present law	Committee bill	Selected net income levels ¹	Present law	Committee bill
	Percent	Percent		Percent	Percent
\$800.....	5.0	5.6	\$15,000.....	29.7	33.4
\$1,000.....	8.0	9.0	\$20,000.....	34.7	39.1
\$1,500.....	12.0	13.5	\$25,000.....	39.2	44.1
\$2,000.....	14.0	15.8	\$50,000.....	52.8	59.4
\$3,000.....	16.3	18.3	\$100,000.....	66.8	74.8
\$5,000.....	18.9	21.2	\$500,000.....	85.9	² 90.0
\$8,000.....	22.3	25.0	\$1,000,000.....	³ 87.0	² 90.0
\$10,000.....	24.4	27.4			

B. MARRIED COUPLE, NO DEPENDENTS

\$1,500.....	4.0	4.5	\$20,000.....	24.4	27.4
\$2,000.....	8.0	9.0	\$25,000.....	26.9	30.3
\$3,000.....	12.0	13.5	\$50,000.....	39.2	44.1
\$5,000.....	15.2	17.1	\$100,000.....	52.8	59.4
\$8,000.....	17.7	19.9	\$500,000.....	80.7	86.6
\$10,000.....	18.9	21.2	\$1,000,000.....	85.9	² 90.0
\$15,000.....	21.7	24.5			

C. MARRIED COUPLE, 2 DEPENDENTS

\$3,000.....	4.0	4.5	\$25,000.....	25.1	28.2
\$5,000.....	10.4	11.7	\$50,000.....	37.8	42.5
\$8,000.....	14.4	16.2	\$100,000.....	51.9	58.4
\$10,000.....	15.9	17.9	\$500,000.....	80.5	86.4
\$15,000.....	19.3	21.8	\$1,000,000.....	85.7	² 90.0
\$20,000.....	22.3	25.1			

¹ Income after deductions but before exemptions.² Maximum effective rate limitation 90 percent.³ Maximum effective rate limitation 87 percent.

TABLE 4.—Comparison of individual income tax burdens under the committee's bill with those under present law**A. SINGLE PERSON, NO DEPENDENTS**

Selected net income levels ¹	Amount of tax		Increase in tax liability of committee bill over present law	
	Present law	Committee bill	Amount	Percent
\$800.....	\$40	\$45	\$5	12.5
\$1,000.....	80	90	10	12.5
\$1,500.....	180	203	23	12.5
\$2,000.....	280	315	35	12.5
\$3,000.....	488	549	61	12.5
\$5,000.....	944	1,062	118	12.5
\$8,000.....	1,780	2,003	223	12.5
\$10,000.....	2,436	2,741	305	12.5
\$15,000.....	4,448	5,004	556	12.5
\$20,000.....	6,942	7,810	868	12.5
\$25,000.....	9,796	11,021	1,225	12.5
\$50,000.....	26,388	29,687	3,299	12.5
\$100,000.....	66,798	74,831	8,033	12.0
\$500,000.....	429,274	² 450,000	20,726	4.8
\$1,000,000.....	³ 870,000	² 900,000	30,000	3.4

B. MARRIED COUPLE, NO DEPENDENTS

\$1,500.....	\$60	\$68	\$8	12.5
\$2,000.....	160	180	20	12.5
\$3,000.....	360	405	45	12.5
\$5,000.....	760	855	95	12.5
\$8,000.....	1,416	1,593	177	12.5
\$10,000.....	1,888	2,124	236	12.5
\$15,000.....	3,260	3,668	408	12.5
\$20,000.....	4,872	5,481	609	12.5
\$25,000.....	6,724	7,565	841	12.5
\$50,000.....	19,592	22,041	2,449	12.5
\$100,000.....	52,776	59,373	6,597	12.5
\$500,000.....	403,548	433,161	29,613	7.3
\$1,000,000.....	858,548	² 900,000	41,452	4.8

C. MARRIED COUPLE, 2 DEPENDENTS

\$3,000.....	\$120	\$135	\$15	12.5
\$5,000.....	520	585	65	12.5
\$8,000.....	1,152	1,296	144	12.5
\$10,000.....	1,592	1,791	199	12.5
\$15,000.....	2,900	3,263	363	12.5
\$20,000.....	4,464	5,022	558	12.5
\$25,000.....	6,268	7,052	784	12.5
\$50,000.....	18,884	21,245	2,361	12.5
\$100,000.....	51,912	58,401	6,489	12.5
\$500,000.....	402,456	432,027	29,571	7.3
\$1,000,000.....	857,456	² 900,000	42,544	5.0

¹ Income after deductions but before exemptions.² Maximum effective rate limitation of 90 percent.³ Maximum effective rate limitation of 87 percent.

Although the peak marginal tax rate of 94.5 percent is reached at a surtax net income level of \$80,000 for a single person, and \$160,000 for a married person under the defense tax, the peak effective rate of 90 percent is not reached until the net income level of \$437,100 for a single person with no dependents, or until \$874,200 for a married couple.

3. Reasons for the rate increases selected

The 12½-percent flat across-the-board increase was selected as the form of increase, since it is not intended that this increase will be permanent, and therefore, it was desired to provide an increase which would not become an integral part of the rate structure. Since the defense tax computation is entirely separate from the ordinary tax computation and represents a simple percentage increase in the tax otherwise payable, it is believed that it best meets these requirements of a temporary tax increase.

The 12½-percent increase is also extended by the bill to long-term capital gains computed under the alternative tax. This was deemed appropriate since individuals in the lower income brackets include net long-term capital gains in the regular individual income tax base so that the tax on their net long-term capital gains is automatically increased by the 12½-percent increase in normal tax and surtax. Your committee believed that not to make a similar adjustment in the alternative rate would be discriminatory.

B. HEAD-OF-HOUSEHOLD PROVISION

1. Description

The bill provides a new surtax table applicable, for taxable years beginning after August 31, 1951, to persons who qualify as a "head of household." Thus for a calendar-year taxpayer the provision will not become effective until 1952. The new surtax table is constructed to give heads of households approximately one-half of the benefits of income splitting. The brackets and rates are adjusted so that it is unnecessary for persons using this table to divide their income by two and then multiply the tax by two as is presently required of married persons filing joint returns, who receive the full benefit of income splitting.

A head of household, for purposes of obtaining the benefits of this special provision, is defined as an individual who is not married and who maintains a household in which lives—

(1) One of his children (including a stepchild or adopted child) or one of their descendants (who if married must still be a dependent of the taxpayer and not file a joint return), or

(2) Any person (not filing a joint return with a spouse), who has a gross income² of less than \$500, more than half of whose support is supplied by the taxpayer and who bears one of the following relationships to the taxpayer:

- (a) A brother or sister or stepbrother or stepsister,
- (b) A parent or one of their ancestors,
- (c) A stepparent,
- (d) A nephew or niece,

²Income before business deductions, personal deductions, and exemptions.

- (e) An uncle or aunt, or
 (f) A son-in-law, daughter-in-law, father-in-law, mother-in-law, sister-in-law, or brother-in-law.

A taxpayer is considered as maintaining a household only if during the year he furnishes more than half the maintenance costs of such household. Moreover, the individual who makes it possible for the taxpayer to gain the benefits of the head-of-household status must actually live in the taxpayer's household unless he is temporarily absent, for example, attending school or for reasons of health. Under this definition it is immaterial how much gross income an unmarried child or grandchild living with the taxpayer may have.

2. Effect on the rate structure

The marginal rates, or the rate of tax applying to the top dollar of income, provided by this bill for heads of households in 1952 and subsequent years are shown in table 5, which compares these rates with those under the bill for a single person and a married couple filing a joint return.

TABLE 5.—Comparison of individual income tax marginal rates for a head of household under the bill with those under the bill for a single person and a married couple, for 1952 and subsequent years

Surtax net income (in thousands)	Head of household ¹	Single individual	Married couple filing returns
	<i>Percent</i>	<i>Percent</i>	<i>Percent</i>
\$0 to \$2.....	22.5	22.5	22.5
\$2 to \$4.....	23.6	24.8	
\$4 to \$6.....	27.0	29.3	
\$6 to \$8.....	29.3	33.8	24.8
\$8 to \$10.....	33.8	38.3	
\$10 to \$12.....	36.0	42.8	
\$12 to \$14.....	40.5	48.4	33.8
\$14 to \$16.....	43.9	52.9	
\$16 to \$18.....	47.3	56.3	
\$18 to \$20.....	48.4	59.6	38.3
\$20 to \$22.....	52.9	63.0	
\$22 to \$24.....	55.1	66.4	
\$24 to \$26.....	57.4	69.8	48.4
\$26 to \$28.....	58.5		
\$28 to \$32.....	61.9		
\$32 to \$36.....	64.1	73.1	52.9
\$36 to \$38.....	67.5		
\$38 to \$40.....			
\$40 to \$44.....	70.9	77.6	56.3
\$44 to \$50.....	73.1		
\$50 to \$52.....	76.5		
\$52 to \$60.....			
\$60 to \$64.....	79.9	87.8	69.8
\$64 to \$70.....			
\$70 to \$76.....			
\$76 to \$80.....	83.3	91.1	73.1
\$80 to \$88.....			
\$88 to \$90.....			
\$90 to \$100.....	86.6	94.5	77.6
\$100 to \$120.....	87.8		
\$120 to \$140.....	88.9		
\$140 to \$160.....	91.1	94.5	81.0
\$160 and over.....	93.4		
	94.5		84.4
			87.8
			91.1
			94.5

¹ Except in a few cases the marginal rates for heads of households are within about a half of 1 percentage point of being exactly halfway between those applying to single persons and married couples. This minor variation is due to rounding. The exceptions referred to occur in the surtax net income brackets of \$36,000 to \$40,000, \$50,000 to \$52,000, \$60,000 to \$64,000, \$70,000 to \$80,000, and \$88,000 to \$90,000. In these brackets the marginal rates of heads of households vary by as much as about 1 percentage point from the midpoints between those for single persons and those for married couples. These variations, however, are not significant since in large measure they offset each other. They are due to combinations of income brackets made to simplify the rate schedule for heads of households.

Table 6 shows the effective, or average, rate of tax for selected income levels under the rates imposed by this bill for heads of households with one dependent, for single individuals with one dependent, and for married couples. Table 7 shows the amount of tax paid at selected income levels for these three classes of taxpayers under the rates provided by the bill and the differences in the tax benefits provided for married couples and heads of households. The last column in this table indicates that heads of households are provided about 50 percent of the benefits of income splitting.

TABLE 6.—*Comparison of the effective individual income tax rates for heads of households under the bill with those for single persons with 1 dependent and for married couples under the bill, for 1952 and subsequent years*

Selected net income levels ¹	Head of household with 1 dependent	Single individual with 1 dependent	Married couple filing a joint return
	Percent	Percent	Percent
\$1,500.....	4.5	4.5	4.5
\$2,000.....	9.0	9.0	9.0
\$3,000.....	13.5	13.5	13.5
\$5,000.....	17.5	17.9	17.1
\$8,000.....	21.2	22.5	19.9
\$10,000.....	23.2	25.1	21.2
\$15,000.....	27.8	31.3	24.5
\$20,000.....	32.3	37.3	27.4
\$25,000.....	36.4	42.5	30.3
\$50,000.....	51.2	58.4	44.1
\$100,000.....	66.8	74.3	59.4
\$500,000.....	88.5	² 90.0	86.6
\$1,000,000.....	² 90.0	² 90.0	² 90.0

¹ Income after deductions but before exemptions.

² Maximum effective rate limitation of 90 percent.

TABLE 7.—*Comparison of individual income tax burdens for heads of households under the bill with those for single persons with 1 dependent and for married couples under the bill, for 1952 and subsequent years*

Selected net income levels ¹	Amount of tax			Amount of tax difference between single person with 1 dependent and—		Percent tax difference of head of household is of that of married couple
	Head of household with 1 dependent	Single individual with 1 exemption	Married couple filing a joint return	Head of household	Married couple	
\$1,500.....	\$68	\$68	\$68			
\$2,000.....	180	180	180			
\$3,000.....	405	405	405			
\$5,000.....	875	896	855	\$21	\$41	51.2
\$8,000.....	1,697	1,800	1,593	103	207	49.8
\$10,000.....	2,318	2,511	2,124	193	387	49.9
\$15,000.....	4,172	4,696	3,668	524	1,028	51.0
\$20,000.....	6,462	7,452	5,481	990	1,971	50.2
\$25,000.....	9,092	10,622	7,565	1,530	3,057	50.0
\$50,000.....	25,605	29,201	22,041	3,596	7,160	50.2
\$100,000.....	66,830	74,264	59,373	7,434	14,891	49.9
\$500,000.....	442,724	² 450,000	433,161	7,276	16,839	43.2
\$1,000,000.....	² 900,000	² 900,000	² 900,000			

¹ Income after deductions but before exemptions.

² Maximum effective rate limitation of 90 percent.

3. *Reasons for adopting the head-of-household provision*

It is believed that taxpayers, not having spouses but nevertheless required to maintain a household for the benefit of other individuals, are in a somewhat similar position to married couples who, because they may share their income, are treated under present law substantially as if they were two single individuals each with half of the total income of the couple. The income of a head of household who must maintain a home for a child, for example, is likely to be shared with the child to the extent necessary to maintain the home, and raise and educate the child. This, it is believed, justifies the extension of some of the benefits of income splitting. The hardship appears particularly severe in the case of the individual with children to raise who, upon the death of his spouse, finds himself in the position not only of being denied the spouse's aid in raising the children, but under present law also may find his tax load heavier.

However, it was not deemed appropriate to give a head of household the full benefits of income splitting because it appears unlikely that there is as much sharing of income in these cases as between spouses. In the case of savings, for example, it appears unlikely that this income will be shared by a widow or widower with his child to the same extent as in the case of spouses. As a result only one-half of the benefits of income splitting are granted to heads of households.

In defining the relationship to the taxpayer of an individual who enables the taxpayer to claim the head-of-household status, the relationships provided in section 25 (b) (3) of the code for claiming a dependency credit have been followed. In all cases except those in which unmarried children, stepchildren, and their descendants share the household the taxpayer must supply over half of the support of the individual and the individual must have gross income of less than \$500. These limitations are deemed desirable to prevent abuse of the head-of-household status. However, they are not believed necessary in the close relationships existing in the case of children, stepchildren, or their descendants, in view of the requirement that such individuals must live in the same household as the taxpayer, except for the temporary absences previously described, and the requirement that the taxpayer must supply over half the cost of maintaining the household. However, these limitations are applied where the children or grandchildren are married. This will prevent extending the benefits of a head of household to a parent while the child is himself obtaining the benefits of income splitting with his spouse.

C. DISTRIBUTION OF TAX BURDEN

Table 8 shows the dollar and percentage distribution of the individual income tax under present law and your committee's bill and the distribution of the tax increase provided in the bill by adjusted gross income classes.⁴ It also distributes by these same classes the number of taxable returns, the adjusted gross income, the value of exemptions, and the normal tax and surtax net income.⁵

The table indicates that 56 percent of the adjusted gross income is earned by those with incomes of \$5,000 or less. Personal deductions and exemptions decrease the proportion of taxable income held by

⁴ Income after business deductions but before personal deductions and exemptions.

⁵ Income after business and personal deductions and exemptions.

such individuals, however, to 45 percent of the total surtax net income. Due to the progression in the rate structure this percentage is further reduced to 37 percent when considering the distribution of taxes under present law. Moreover, since the flat 12½ percent across-the-board increase accounts for the bulk of the individual income-tax changes made in your committee's bill, this distribution of the tax burden remains virtually unchanged under the bill.

TABLE 8.—*Estimated distribution of individual income tax returns, income, exemptions, and tax liability under present rates and under the committee bill when fully effective*

[Money amounts in millions of dollars]

Adjusted gross income classes	Total number of taxable returns	Adjusted gross income	Value of exemptions	Surtax net income	Total tax, present law ¹	Total tax under committee bill ¹	Tax increase, committee bill over present law ¹
Under \$1,000.....	1,868,095	\$1,556	\$1,121	\$272	\$54	\$61	\$7
\$1,000 to \$2,000.....	6,991,074	10,875	5,436	4,209	842	947	105
\$2,000 to \$3,000.....	10,908,014	27,275	12,918	11,226	2,245	2,526	281
\$3,000 to \$4,000.....	9,830,797	33,462	15,496	14,315	2,871	3,229	358
\$4,000 to \$5,000.....	6,262,777	27,905	11,259	13,247	2,672	3,002	330
Total under \$5,000....	35,860,757	101,073	46,230	43,268	8,684	9,765	1,081
\$5,000 to \$10,000.....	6,645,679	42,850	12,524	24,916	5,080	5,707	628
\$10,000 to \$25,000.....	1,342,865	19,470	2,637	14,742	3,488	3,908	420
\$25,000 to \$50,000.....	247,141	8,200	495	6,970	2,289	2,560	271
\$50,000 to \$100,000.....	70,115	4,675	138	3,966	1,862	2,086	224
\$100,000 to \$250,000.....	18,276	2,559	35	1,966	1,276	1,429	153
\$250,000 to \$500,000.....	1,967	647	3	438	378	418	40
\$500,000 to \$1,000,000.....	479	316	1	185	192	209	17
\$1,000,000 and over.....	189	310	(²)	178	206	219	13
Total over \$5,000.....	8,326,711	79,027	15,833	53,363	14,771	16,537	1,766
Total.....	44,187,468	180,100	62,063	96,631	23,455	26,302	2,847

PERCENTAGE DISTRIBUTIONS

Under \$1,000.....	4.23	0.86	1.81	0.28	0.23	0.23	0.25
\$1,000 to \$2,000.....	15.82	6.04	8.76	4.36	3.59	3.60	3.69
\$2,000 to \$3,000.....	24.69	15.14	20.81	11.62	9.57	9.60	9.87
\$3,000 to \$4,000.....	22.25	18.58	24.97	14.81	12.24	12.28	12.57
\$4,000 to \$5,000.....	14.17	15.49	18.14	13.71	11.39	11.41	11.59
Total under \$5,000....	81.16	56.12	74.49	44.78	37.02	37.13	37.97
\$5,000 to \$10,000.....	15.04	23.79	20.18	25.78	21.66	21.70	22.06
\$10,000 to \$25,000.....	3.04	10.81	4.25	15.26	14.87	14.86	14.75
\$25,000 to \$50,000.....	.60	4.55	.80	7.21	9.76	9.73	9.52
\$50,000 to \$100,000.....	.16	2.60	.22	4.10	7.94	7.93	7.87
\$100,000 to \$250,000.....	.04	1.42	.06	2.03	5.44	5.43	5.37
\$250,000 to \$500,000.....	(³)	.36	(³)	.45	1.61	1.59	1.40
\$500,000 to \$1,000,000.....	(³)	.18	(³)	.19	.82	.79	.60
\$1,000,000 and over.....	(³)	.17	(³)	.18	.88	.83	.46
Total over \$5,000.....	18.84	43.88	25.51	55.22	62.98	62.87	62.03
Total.....	100.00	100.00	100.00	100.00	100.00	100.00	100.00

NOTE.—Figures are rounded and may not add to totals.

¹ Includes normal tax, surtax, and alternative tax on net long-term capital gains.

² Less than \$500,000.

³ Less than 0.005 percent.

IV. GENERAL CORPORATE TAX CHANGES

This bill makes the following changes in the corporate income taxes:

(1) The corporate normal tax is increased from 25 to 30 percent. The surtax rate remains at 22 percent. Since corporations with incomes of \$25,000 or less are not subject to the surtax, their rate is increased from 25 to 30 percent. The combined normal tax and surtax on income in excess of \$25,000 is increased from 47 to 52 percent. Changes are also made in the credits allowed to Western Hemisphere trade corporations and the credits based on the dividends paid and received on the preferred stock of public utilities, so as not to enlarge the tax differential provided them under existing law.

(2) The percentage of the average base period net income which may be used in computing the credit based on income for the purposes of the excess-profits tax is reduced from 85 to 75, as originally proposed by the Treasury.

(3) The ceiling rate which limits the percentage of a taxpayer's excess-profits net income that can be taken by the corporate normal tax, surtax, and excess-profits tax combined is increased from 62 to 70 percent.

(4) The tax on the capital gains of corporations is increased by the 12½ percent defense tax to match the change made in the rate applied to the capital gains of individuals. As a result of this action the capital gains of corporations will be subject to a rate of 28.125 percent as compared with 25 percent under existing law.

Table 9 on page 15 compares, for corporations with selected net incomes, the combined corporate normal tax and surtax liabilities and effective rates under this bill with those under existing law and under the law prior to the enactment of the Revenue Act of 1950. The table shows that in each case the combined rates will be 5 percentage points larger under the bill than under existing law. The resulting increase in tax liabilities range from 20 percent of the tax due under present law to 10.64 percent in the cases shown, the percentage decreasing as the income grows larger. A flat percentage-point increase in the tax rate necessarily produces an additional tax liability which is a greater percentage of a small tax than of a large one when the increase is applied to a progressive tax.

Table 10 on page 16 shows the combined corporate income and excess-profits tax liabilities of corporations in various income classes under existing law and under this bill. The table indicates that of the 415,182 corporations with taxable net income, 292,491, or about 70 percent of the total, have incomes less than \$25,000. These corporations as a group will bear only 3.55 percent of the increase in tax liabilities resulting from the increase in the normal tax rate, the reduction in the percentage used in computing the credit based on income under the excess-profits tax and the increase in the ceiling rate. The 45,022 corporations with incomes of \$100,000 and over, which constitute about 11 percent of the total number of corporations with taxable net income, will bear more than 89 percent of the increase.

For corporations with fiscal years beginning prior to July 1, 1950, and ending after December 31, 1950, the bill provides a formula for prorating the tax due under the law prior to the Revenue Act of 1950, under existing law, and under this bill. For corporations with fiscal years beginning after June 30, 1950, and ending after December 31,

1950, the bill prorates the tax as computed under existing law and under this bill.

The increase in the alternative tax applied to the capital gains of corporations is fully effective with respect to taxable years beginning after August 31, 1951. For calendar-year corporations the increase for 1951 will be 4 percent as in the case of the additional tax on the capital gains of individuals. For corporations with fiscal years which begin prior to September 1, 1951, and end after that date, a proportion of the 12½-percent increase will apply to the capital gains determined by the number of months in the fiscal year which begin after August 31, 1951.

In a full year's operation the 5-point increase in the corporate normal tax rate and the corresponding 5-point increase in the ceiling rate are expected to increase the revenues by about \$2,085 million. The 10-point reduction in the percentage of the average base period net income used in calculating the income credit under the excess-profits tax plus the additional 3-point increase in the ceiling rate are estimated to yield about \$732 million in a full year's operation. The increase in the rate of the alternative tax applied to the capital gains of corporations is expected to produce an additional revenue of \$38 million a year when fully effective. The combined effect of these four changes is to increase corporate tax liabilities by about \$3,078 million annually, and, after taking into account the effect on individual income taxes of a reduction in the dividends distributed, the net increase will be \$2,855 million. It is estimated that in the fiscal year 1952, collections will be increased by \$1,740 million.

While these increases are substantial, it must be borne in mind that corporate profits are also very large. In the first quarter of the calendar year 1951 corporate profits before taxes were running at the rate of \$51 billion annually. This is slightly above the very high rate reached in the fourth quarter of the calendar year 1950 and more than half again as large as the profits of the calendar year 1948, which were the largest prior to 1950. Moreover, corporate profits after taxes in the calendar year 1951, after full allowance for this bill, are expected to be about \$20 billion as contrasted to corporate profits after taxes during World War II ranging from \$8.5 billion to \$10.8 billion. Thus, even after considering the increases made in corporate taxes by this bill, in 1951 these profits will be from about 180 to 230 percent of corporate profits after taxes during the last war.

In addition, the adverse effect on incentives of the additional corporate taxes provided in this bill will be reduced substantially by the fact that the additional collections will be made in a period of mobilization. The large volume of defense orders and the expanded flow of consumer income, which results directly and indirectly from the unusual volume of Government expenditures required by the emergency, will assure large and predictable markets for producers in nearly every field of business activity throughout the mobilization period.

TABLE 9.—Comparison of corporate normal and surtax liabilities and effective rates under pre-1950 law, present law and committee bill

Net income subject to normal tax and surtax	Combined normal tax and surtax			Effective rates					Increase in tax liability over present law		Increase in tax liability over pre-1950	
	Pre-1950	Present law	Committee bill	Pre-1950 (percent)	Present law (percent)	Committee bill (percent)	Percent-age point increase over present law (percent)	Percent-age point increase over pre-1950 (percent)	Amount	Percent	Amount	Percent
\$1,000	\$210	\$250	\$300	21.00	25.00	30.00	5.00	9.00	\$50	20.00	\$90	42.86
\$5,000	1,050	1,250	1,500	21.00	25.00	30.00	5.00	9.00	250	20.00	450	42.86
\$10,000	2,200	2,500	3,000	22.00	25.00	30.00	5.00	8.00	500	20.00	800	36.36
\$25,000	5,750	6,250	7,500	23.00	25.00	30.00	5.00	7.00	1,250	20.00	1,750	30.43
\$30,000	8,400	8,600	10,100	28.00	28.67	33.67	5.00	5.67	1,500	17.44	1,700	20.24
\$40,000	13,700	13,300	15,300	34.25	33.25	38.25	5.00	4.00	2,000	15.04	1,600	11.68
\$50,000	19,000	18,000	20,500	38.00	36.00	41.00	5.00	3.00	2,500	13.89	1,500	7.89
\$60,000	22,800	22,700	25,700	38.00	37.83	42.83	5.00	4.83	3,000	13.22	2,900	12.72
\$75,000	28,500	29,750	33,500	38.00	39.67	44.67	5.00	6.67	3,750	12.61	3,000	17.54
\$100,000	38,000	41,500	46,500	38.00	41.50	46.50	5.00	8.50	5,000	12.05	8,500	22.37
\$200,000	75,000	88,500	98,500	38.00	44.25	49.25	5.00	11.25	10,000	11.30	22,500	29.61
\$500,000	190,000	229,500	254,500	38.00	45.90	50.90	5.00	12.90	25,000	10.89	64,500	33.95
\$1,000,000	380,000	464,500	514,500	38.00	46.45	51.45	5.00	13.45	50,000	10.76	134,500	35.39
\$10,000,000	3,800,000	4,694,500	5,194,500	38.00	46.95	51.95	5.00	13.95	500,000	10.65	1,394,500	36.70
\$100,000,000	38,000,000	46,994,500	51,994,500	38.00	46.99	51.99	5.00	13.99	5,000,000	10.64	13,994,500	36.83

TABLE 10.—*Estimated corporate income and excess-profits tax liabilities under present law and under committee bill, calendar year 1951*¹

Taxable net income classes	Number of corporations	Taxable net income	Income and excess-profits tax liabilities		
			Present rates	Committee bill	Increase
		<i>Millions</i>	<i>Millions</i>	<i>Millions</i>	<i>Millions</i>
0 to \$25,000.....	292, 491	\$2, 161	\$540	\$648	\$108
\$25,000 to \$50,000.....	47, 192	1, 566	520	608	88.
\$50,000 to \$100,000.....	30, 477	2, 018	899	1, 027	128
\$100,000 and over.....	45, 022	39, 311	21, 426	24, 142	2, 716
Total, excluding capital gains.....	415, 182	45, 056	23, 385	26, 425	3, 040
Capital gains.....		1, 200	300	338	38
Total, including capital gains.....	415, 182	46, 256	23, 685	26, 763	3, 078

PERCENT DISTRIBUTION

0 to \$25,000.....	70. 45	4. 80	2. 31	2. 45	3. 55
\$25,000 to \$50,000.....	11. 37	3. 47	2. 22	2. 30	2. 90
\$50,000 to \$100,000.....	7. 34	4. 48	3. 85	3. 89	4. 21
\$100,000 and over.....	10. 84	87. 25	91. 62	91. 36	89. 34
Total, excluding capital gains.....	100. 00	100. 00	100. 00	100. 00	100. 00

¹ Based upon a level of profits before tax (Commerce basis) of \$48 billion

V. STRUCTURAL CHANGES IN THE INCOME TAXES

A. WITHHOLDING ON DIVIDENDS, INTEREST, AND ROYALTIES

1. General statement

Part I of title II of this bill provides for withholding at the rate of 20 percent in the case of dividends, certain interest (principally corporate bond interest), and royalties. It is estimated that this action will increase the revenues by \$323 million annually under the rates proposed in this bill.

There is to be no withholding on interest on United States savings bonds, postal savings certificates of deposit, bank deposits, mutual savings bank deposits, or on amounts paid by savings and loan associations, building and loan associations, cooperative banks, homestead associations, credit unions or any similar organization with respect to withdrawable or repurchasable shares, investment certificates or deposits, whether or not the payments are designated as interest or dividends.

Under existing law recipients of such incomes are required to report the total amount received as income on their annual income-tax returns. Withholding is required of the payor only in the case of nonresident aliens, but a proposed regulation would require that information returns be filed by the payor showing all dividend payments, regardless of their size, and interest and royalty payments to any one recipient in an amount in excess of \$600 a year. Prior to 1951 dividend payments were so reported only when the amount paid to a single recipient was in excess of \$100 a year, but this limitation is being eliminated. Also, recipients of dividends and interest are now required to itemize such receipts on their income-tax returns.

Although broadened reporting requirements improve compliance, they cannot be as effective or economical as a withholding system.

It is impossible to match all the information documents which are received by the Bureau of Internal Revenue with the corresponding income-tax returns, principally because the names and addresses on the former often do not agree with the names and addresses on the latter. Substantial administrative costs are involved in determining the amounts of unreported income, in preparing deficiency notices, and in actually collecting the tax. Within the limits of reasonable administrative cost, the information system cannot recover for the Government more than a small proportion of the underreported tax on interest and dividends and royalties. Moreover, the elimination of the \$100 limit on the reporting of dividends paid would mean a large increase in the amount of work required of the payor.

Therefore, this committee has included in the present bill provision for an extension of the withholding system. This provision differs from the one contained in the House version of the 1950 tax bill in that withholding is applied to certain interest payments and royalties as well as dividends. The rate is to be 20 percent instead of 10 percent, and the mechanism which is to be used in the case of dividends and interest is very much simpler than that which would have been applied to dividends under the 1950 proposal.

It is estimated that for the calendar year 1951 underreporting may amount to as much as \$1.1 billion in the case of dividends, \$1.9 billion in the case of interest, and \$40 million in the case of royalties. Although some of this underreporting represents deliberate evasion, much of it appears to be the result of forgetfulness, carelessness and a failure to keep records, particularly on the part of taxpayers who receive such payments irregularly and in relatively small amounts.

Withholding will go far to correct the unfair disadvantage which is present under existing law for those recipients of dividends, interest, and royalties who report their receipts accurately, as well as for wage and salary earners whose incomes are already subject to withholding.

Under this bill the 20-percent withholding rate will be applied to the enumerated types of dividends, interest, and royalty payments without allowance for personal exemptions. The payor will remit to the Bureau of Internal Revenue the amounts so withheld and submit a return showing the total amount of dividends, interest, and royalties with respect to which tax is required to be withheld. The return and payment will be made at such time, for such period, and in such manner as the Secretary may prescribe by regulations. Presumably these arrangements will be similar to those now used in withholding on wages except that in the case of dividends and interest the payor will not be required to report to the Bureau of Internal Revenue the amount withheld for each individual or to furnish withholding receipts to such individuals.

Usually the withholding agent will compute the amount due by multiplying his total payments of interest and dividends by 20 percent.

As in the case of wages and salaries, the recipient of dividends and interest will report as income the gross amount prior to withholding. He will do this by entering on his return (1) the net amount of dividends and interest received after withholding, (2) the amount required to be withheld which, at a 20-percent withholding rate, would be exactly one-quarter of the net amount received, and (3) the sum of the amount actually received and the amount required to be withheld. The latter is the gross amount subject to tax. A credit against the

tax due will then be allowed equal to the amount required to be withheld.

The operation of this system may be illustrated with the case of an individual stockholder to whom a corporation paid \$1,000 of dividends during the taxable year. At a 20-percent withholding rate, the corporation will withhold \$200 from the dividend payments to this individual, remitting the withheld taxes to the collector of internal revenue. On his income tax return, the individual will enter the \$800 of dividends he received. He will then add to the \$800 the \$200 withheld. This will not require any records or receipts but will be accomplished by simply computing one-fourth of the amount received and adding the two together. The total of \$1,000 will be included in his gross income. After computing his total tax liability he will deduct the amount already paid or withheld, including the \$200 withheld at source on dividends, and either pay the balance due or apply for a refund.

This system does not involve the use of the type of withholding receipt exemplified by the Form W-2 used in the case of withholding on wages and salaries. The plan is, therefore, not open to the objection raised against the 1950 proposal, namely, that it would increase unduly the work of the withholding agents. As a matter of fact, with this system in operation it would be possible to reintroduce a limitation on the reporting of dividends paid.

In the case of interest not subject to withholding, such as interest on savings accounts, the committee deemed it necessary for enforcement purposes to permit the Secretary of the Treasury to require information returns for any amount which he may, by regulation, specify. In no event, will the Secretary be permitted to exempt from this requirement interest payments (not subject to withholding) of \$100 or more. In the case of dividends subject to withholding, the bill provides that an information return will not be required unless the annual payment to the individual is \$300 or more.

The procedure and computation in the case of interest withheld on, will be the same as for dividends.

However, it is not possible to avoid the use of a withholding receipt in the case of royalties because the difficulties of the recipient in determining which payments he receives are withheld upon, requires that some notice pass from the withholding agent to the taxpayer, informing him of the fact and amount of withholding. For this purpose a system of withholding receipts similar to the Form W-2 will be used. A copy of the receipt will be sent to the Bureau for matching purpose and two copies will go to the taxpayer, one of which will accompany his income-tax return.

In the case of coupon bonds the owner will, on turning in his interest coupon at a bank, receive 80 percent of the face amount of the coupon. The bank will also be paid 80 percent of the face amount by the payor corporation. The remaining 20 percent will be remitted by the latter to the collector of internal revenue.

The 20-percent withholding rate is the equivalent of a 22-percent first-bracket rate after taking into account the 10-percent standard deduction. The first-bracket rate under this bill including the defense tax will be 22.5 percent.

It is believed that the proposed system of withholding will secure a high level of compliance throughout the income scale. For taxpayers

subject to the first-bracket rate, approximately the full tax liability will be withheld and no incentive for underreporting will remain. For proper enforcement in the middle and upper brackets reliance will have to be continued on information returns but the amount of potential underreporting will be substantially reduced.

To protect recipients of small amounts of interest, dividends, or royalties from the loss of the credit based on withholding due to an oversight or neglect of small receipts of these types, the bill extends the statute of limitations for the purpose of claiming such credit to 7 years in such cases but limits the amount to be refunded, after the running of the 3-year statute of limitations, to an amount not in excess of \$2 per year.

The rules governing the use of the Form 1040-A under which the tax is computed by the collector are amended. Under existing law this form may be used if the taxpayer's gross income is less than \$5,000, is made up entirely of wages, salaries, dividends, and interest and includes not more than \$100 of income not withheld upon. Under the bill, Form 1040-A is available if the gross income is less than \$5,000 and consists entirely of wages, interest, and dividends to which withholding applies.

2. Definition of dividends for withholding purposes

For withholding purposes dividends are defined so as to include any distribution by a corporation which is a dividend as defined in section 115 (a) of the Internal Revenue Code as well as payments in lieu of dividends which arise out of transactions involving short sales. There are, however, a considerable number of cases in which taxes upon payments in the nature of dividends will not be withheld.

Patronage dividends of cooperatives will not be withheld on unless they are dividends within the meaning of section 115 (a).

There will be no withholding with respect to stock dividends or the distribution of rights, since such transfers frequently do not produce taxable income.

Distributions to shareholders in connection with corporate reorganizations and the redemption of outstanding stock are not withheld on. Such distributions are frequently not taxable; in many other cases they are taxed as capital gains. Generally, the complexities which would result make it undesirable to apply withholding to these distributions.

Dividends paid by Federal Reserve banks, Federal land banks, Federal Home Loan banks, the Central Bank for Cooperatives or a Bank for Cooperatives are exempt because such dividends are received entirely by corporations.

For similar reasons withholding will not apply to dividends paid by a corporation which is a member of an affiliated group of corporations to another member of the group. However, this exemption is effective only when the affiliated group filed a consolidated return for the preceding taxable year.

Dividends paid by a foreign corporation are exempt from withholding. In this case it would be inappropriate or impracticable to require the payor to act as a withholding agent, and the procedure for determination by the taxpayer of the gross amount of the dividend would, in some cases, be complicated by the additional tax withholding by foreign governments.

Dividends paid to governments, political subdivisions, international organizations, or wholly owned instrumentalities or agencies of the foregoing will not be subject to withholding provided the entire class of stock with respect to which such dividend is paid is owned by one or more such agency. Here withholding would serve no useful purpose.

For the same reason dividends paid to foreign governments and international organizations will not be withheld upon.

Dividends paid to an owner of record who is a foreign corporation not engaged in trade or business within the United States, to non-resident alien individuals, or to a partnership not engaged in trade or business within the United States and composed in whole or in part of nonresident aliens are not affected by the new withholding provisions. In these cases withholding is provided under other sections of the Internal Revenue Code.

Withholding will not apply to dividends paid pursuant to the terms of a lease under which the shareholders of the lessor corporation are more such agency. Here withholding would serve no useful purpose. entitled to dividends without the deduction of any tax. However, in order to prevent the deliberate establishment of such leases for the purpose of avoiding withholding, this exemption applies only when the lease was entered into prior to January 1, 1951.

3. Definition of interest for withholding purposes

Withholding will apply to interest on all bonds, debentures, notes, certificates, or other evidences of indebtedness, issued by any corporation, with interest coupons or in registered form, interest on deposits with stockbrokers, amounts held by an insurance company under an agreement to pay interest thereon and interest on refunds of the overpayment of any internal revenue tax, except income and excess profits taxes imposed on corporations.

There is to be no withholding on interest on United States savings bonds, postal savings certificates of deposit, bank deposits, mutual savings bank deposits, or on amounts paid by savings and loan associations, building and loan associations, cooperative banks, homestead associations, credit unions or any similar organization with respect to withdrawable or repurchasable shares, investment certificates or deposits, whether or not the payments are designated as interest or dividends.

In order to avoid a large amount of additional administrative work and to avoid imposing the duties of a withholding agent on a payor who makes only occasional disbursements, the bill provides that the payment of interest by individuals will not be subject to withholding and that the only payments by partnerships or individuals which will be withheld on are those paid by private banks or brokerage firms.

There will be no withholding on interest paid on wholly tax-exempt securities since such withholding would serve no useful purpose.

Interest paid on equipment trust certificates is also exempt since securities of this type are ordinarily held by corporations.

Interest paid on corporate obligations issued before January 1, 1951, will also be exempt from withholding if the obligor is required by the terms of the contract to absorb the tax.

4. Definition of royalties for withholding purposes

For withholding purposes the term "royalty" includes not only rents and royalties paid with respect to mines, oil or gas wells, and other natural deposits, but also royalties of the type paid for the use of patents, copyrights, secret processes or formulas, trade-marks, and trade brands if paid by a corporation. When copyrights are turned over to an organization which licenses their use, the payments made by such organizations to its members will be withheld on but there will be no withholding on the payments to the organization.

In the case of a mine, oil or gas well, or other natural deposit, withholding will apply to delay rental, and any bonus, prepaid or minimum royalty, and any payment reflecting a share of the gross or net income derived from the extraction and sale of any natural deposit but only if the recipient is not personally obligated to pay a proportionate share of development or operating expenses. Withholding will not depend on whether the payment is measured by production or by a share of gross or net income from the property.

Royalties paid in kind will not be withheld on mineral, oil, gas, or other natural deposits unless sold by or on behalf of the producer or under a division order in which case the purchaser will be considered as making payment of the royalty in an amount equal to the purchase price.

All royalties paid to a corporation or to a government or political subdivision are specifically exempt from withholding. In other respects the rules governing the application of withholding to royalty payments are similar to those described in connection with dividends and interest.

5. Special rules applying to partnerships, estates, and trusts

Under this bill a partnership or a common trust fund does not ordinarily receive credit for the tax withheld on dividends, interest, or royalties received by it. The credit is allowed instead to the members of the partnership or the participants in the common trust fund in proportion to their interests. It is anticipated that the returns showing the distributive share of the partners will include the allocated amounts of tax withheld at the source for each partner, thus providing the Bureau with the information necessary to check the credits claimed on the partnership's tax return. It is anticipated also that the partnership will supply the partner with the information on dividends, interest, and royalties received and the tax withheld necessary for filing his tax return at the same time that it informs him of his share in the income derived from the organization.

If the entire income of an estate or trust is distributed to the beneficiaries, the credit will be handled in the same way as in the case of a partnership or common trust fund. If, however, a portion of the income of the estate or trust is retained by it, the credit will be divided between the beneficiaries and the trust or estate in proportions which reflect the allocation of the income of the trust or estate.

6. Special rules governing regulated investment companies and personal holding companies

Special provision must be made for the treatment of amounts withheld on dividends, interest, and royalties paid to regulated investment companies and personal holding companies because the existing law imposes substantial penalties upon such corporations unless they

distribute their income currently. If no special provision were made, such corporations would be required to make distributions out of capital in order to prevent the application of these penalties, since there would not be enough income left after the withholding on their income to finance the disbursements necessary to prevent the application of these penalties plus the withholding on the company's disbursements to its own stockholders. Therefore, it is provided that regulated investment companies and personal holding companies may count the amounts withheld on dividends, interest, and royalties received by them as credits against the amounts which they themselves are required to withhold from their disbursements to their own shareholders.

7. Special provision for tax-exempt organizations

Tax-exempt organizations also pose a special problem since they frequently rely heavily upon the income which they receive as interest, dividends, and royalties to finance their current operating costs. An outright exemption of payments to such organizations would greatly complicate the work of the withholding agent. It is provided, therefore, that in lieu of such an exemption these organizations will be permitted to use the amount withheld with respect to dividends, interest, and royalties received by them as a credit against the amount due from such organization under the income and payroll taxes. A claim for this credit will be made under regulations at the time of the filing of the returns for the purpose of these taxes. In addition, tax-exempt organizations may claim refunds quarterly for the excess of the amount withheld on dividends, interest, and royalties received over the amount of the income and payroll taxes due. Such claims may be filed on a quarterly basis after the close of the calendar quarter or before March 15 of the year after the close of the fourth quarter. No interest will be allowed on refunds for any period prior to the date on which the claim for refund is filed or before March 16 of the calendar year succeeding the close of the calendar quarter in respect of which the refund is claimed, whichever date is the later. These arrangements will reduce to a minimum the extent to which tax-exempt organizations will be out of pocket on account of the withholding system applied to interest, dividends, and royalties under this bill.

These arrangements also apply in the case of State and local governments and their agencies.

8. Effective date

The provisions relating to withholding on dividends, royalties, and interest will apply to amounts paid in 1952 and subsequent years.

B. LIFE INSURANCE COMPANIES

In section 401 of the Revenue Act of 1950 the formula used for computing the net income of life insurance companies was amended, the action being effective only for 1949 and 1950. This action was necessitated by the fact that the formula set up in the Revenue Act of 1942 resulted in no tax being due from any company on its life-insurance investment income for the years 1947 and 1948. The substitute formula provided for 1949 and 1950 was intended to be a stopgap which would terminate the tax-exempt status of this type of income and permit the completion of the study needed for the develop-

ment of a permanent solution to the problem of the taxation of life-insurance companies.

Considerable progress has been made in this study but it has not yet produced a definitive solution. Although changes in the yield obtained on life insurance investments and in the average rate of interest paid on policyholders' reserves have eliminated the tax-free status of the industry under the 1942 formula, the latter is generally recognized to be defective. If no action were taken at this time, this formula would apply in 1951 and subsequent years. To forestall this eventuality and to provide additional time for the completion of the study upon which this committee is now engaged, section 311 of this bill applies the stopgap formula to life insurance investment income in 1951.

It is estimated that in 1951 the revenue under the stopgap formula will exceed that which would be obtained under the 1942 formula by about \$58 million, resulting in a total tax liability of \$111 million.

C. SURTAX EXEMPTIONS AND MINIMUM EXCESS PROFITS TAX CREDIT OF RELATED CORPORATIONS

Under existing law the \$25,000 corporate surtax exemption and the \$25,000 minimum credit under the excess profits tax are available to each member of a group or chain of related corporations even though the degree of their association is sufficiently great so that they are virtually a single business enterprise. This treatment confers an unwarranted tax advantage on businesses carried out by means of a series of corporations, rather than a single corporation, and sets up an incentive for the artificial splitting up of corporations. This effect of the existing law is difficult to reconcile with the fact that the surtax exemption and the minimum credit were intended to confer tax advantages on small business. Therefore, section 123 of this bill reduces to one the number of surtax exemptions which may be claimed by a group of "related" corporations and limits the minimum excess profits tax credit to a single credit of \$25,000 for the entire group.

Under the bill the \$25,000 surtax exemption and the \$25,000 minimum credit will be divided equally among the related corporations unless the latter elect another method of apportionment. Such an election may be made by filing with the Secretary of the Treasury a consent indicating the portion of the \$25,000 which will be taken by each of the related corporations as its surtax exemption for the taxable year. This election will permit the related corporations to absorb the full exemption and the full minimum credit so long as the group has a combined surtax net income of \$25,000.

A "related" group of corporations is defined so as to include one or more chains of corporations connected through ownership with a common parent corporation when at least 95 percent of the voting power of all classes of stock of each of the corporations (except the common parent corporation) is owned directly by one or more of the other corporations, and the common parent owns directly stock possessing at least 95 percent of the voting power of all classes of stock of at least one of the other corporations, excluding, in computing such voting power, stock held by such other corporations. A "related" group will also exist if at least 95 percent of the voting power

of all classes of stock of each of the corporations is owned, directly or indirectly, by or for one individual, or if at least 95 percent is owned, directly or indirectly, by or for not more than five individuals each of whom owns substantially the same proportion of the voting power in each of the corporations.

In determining the extent of an individual's holdings of the stock of a corporation for this purpose, he will be deemed to own stock held directly or indirectly by or for his spouse, and also that portion of the stock owned by a corporation, partnership, estate, or trust in which he holds an interest, which reflects the extent of his interest in such corporation, partnership, estate, or trust. If he and his spouse own directly or indirectly more than 50 percent of the voting power of a corporation he will be considered to own also the stock in that corporation held directly or indirectly by his ancestors and lineal descendants.

The amendment does not apply to educational, charitable, and similar organizations which are taxable on their unrelated business income under supplement U of the Internal Revenue Code.

While these amendments to the surtax exemption and the minimum excess profits tax credit would be desirable in any event, they are particularly necessary at the present time. The substantial revenue loss under existing law is difficult to reconcile with the current budgetary stringency, and this revenue loss might be increased by the deliberate splitting up of corporations for the purpose of realizing the unusual tax advantages which present law permits in a period of high corporate tax rates. Evidence has been presented to this committee which indicates that a substantially smaller incentive led in some cases to the artificial splitting up of business enterprises into a large number of individual corporations during World War II.

It is estimated that when fully effective section 123 of this bill will increase the revenues by about \$55 million annually.

Section 123 will apply only to taxable years beginning after December 31, 1950.

D. OFFSET OF SHORT- AND LONG-TERM CAPITAL GAINS AND LOSSES

Section 305 of this bill amends the treatment of the gains and losses of individuals so as to eliminate a defect in existing law. The latter excludes 50 percent of a long-term capital gain or loss from the computation of net capital gain, net capital loss and net income, but includes 100 percent of a short-term capital loss in such computations. As a result a \$1 short-term loss can wipe out a \$2 long-term gain.

Under section 305 of this bill long-term gains are included in gross income at 100 percent and a deduction from gross income is allowed equal to 50 percent of the amount by which the taxpayer's net long-term gain exceeds his net short-term loss. Thus, if a taxpayer has a net long-term gain of \$1,000 and a net short-term loss of like amount, no deduction will be allowable. If the net long-term gain is \$2,000 and the net short-term loss is \$1,000, the deduction against gross income will be 50 percent of the excess of \$2,000 over \$1,000, or \$500. Hence the amount actually taxed as a long-term capital gain will be \$500. Under existing law the short-term loss offsets the portion of the long-term gain included in the calculation of net income and no tax liability exists.

Long-term losses, like long-term gains, will be taken into account in full. Long-term losses will therefore offset short-term gains on a dollar-for-dollar basis, just as short-term losses will offset long-term gains. If long-term losses exceed short-term gains, the unreduced excess will be offset against other income up to \$1,000. The net loss which is not absorbed in this manner will be carried forward as a short-term capital loss, whether arising out of short- or long-term operations.

Section 305 applies only to taxable years beginning on or after the date of enactment of this act.

It is estimated that when fully effective this amendment will increase the revenues by \$28 million annually.

E. COLLAPSIBLE CORPORATIONS

This bill amends section 117 (m) of the Internal Revenue Code which denies capital-gains treatment to the sale, exchange or retirement of stock in a "collapsible corporation" so as to extend the application of this section to cases where the corporation is used as a device for converting inventory profits into capital gains. Section 117 (m) was added to the Internal Revenue Code by the Revenue Act of 1950 to forestall the use of the collapsible corporation as a device for converting ordinary income into long-term capital gain. At that time it was believed that the collapsible corporation was used principally in the motion picture and building construction industries. The reports on the bill which became the Revenue Act of 1950 illustrated the device by the case of a corporation organized for the production of a single motion picture. Upon the completion of the film, but prior to the realization by the corporation of any income therefrom, the corporation would be liquidated and its asset distributed. No tax would be paid by the corporation because it had realized no income. The former shareholders would pay a tax upon the difference between their cost and the fair market value of their shares in the value of the product so distributed. Prior to the Revenue Act of 1950 this gain might have been taxed as a long-term capital gain with a maximum effective rate of 25 percent. The collapsible corporation was also illustrated with cases in which a corporation set up to construct a building was liquidated and the rights in the building were sold by the former stockholders acting as individuals.

Because the device of the collapsible corporation was believed to be used largely in these two cases, section 117 (m) was drafted so as to apply when the corporation was "formed or availed of principally for the manufacture, construction or production of property."

It is now understood that the collapsible-corporation device was also used in an attempt to convert profits on inventory and stock in trade into capital gains. The procedure used was to transfer a commodity to a new or dormant corporation, the stock of which would then be sold to the prospective purchaser of the commodity who would thereupon liquidate the corporation. In this manner the accretion in the value of the commodity, which in most of the actual cases was whisky, would be converted into a gain realized on the sale of stock in a corporation, thus opening the possibility that it would be taxed as a long-term capital gain.

To prevent the use of the collapsible corporation in cases of this sort, section 117 (m) is extended to corporations formed or availed of principally for the purchase of property which is inventory or stock in trade in the hands of the corporation.

This amendment applies to taxable years beginning after December 31, 1950. The determination of the tax treatment of gains realized in taxable years beginning prior to January 1, 1951, will be made as if this section had not been enacted and without inferences drawn from the fact that the amendment made in this bill is not specifically retroactive and without inferences drawn from the limitations contained in section 117 (m) as amended by section 308 of this bill.

It is estimated that in a full year's operations this provision will increase the revenues by \$5 million.

F. SALE OF PROPERTY TO CONTROLLED CORPORATIONS

Section 310 of this bill is intended to forestall the practice of selling depreciable assets to controlled corporations in order to obtain the substantial tax benefits available under existing law. This practice, which is reported by the Bureau of Internal Revenue to be of growing importance, may be illustrated as follows: Assume that a husband and wife own and operate a corporation engaged in retail trade, that they also own as individuals the building used by this corporation and that the current value of the building is well in excess of its adjusted basis. If the building is sold to the corporation, a capital-gains tax will ordinarily be paid, but the building then has, in the hands of the corporation, an adjusted basis which is greater than the basis in the hands of the individual shareholders by the amount of the gain realized on the sale to the corporation. The property being depreciable the corporation will then be able to write off the increase in the adjusted basis over the remaining life of the building. The resulting additional depreciation charges are, of course, an offset to ordinary income. Thus, in effect, the immediate payment of a capital-gains tax has been substituted for the elimination, over a period of years, of the corporate income taxes on an equivalent amount. The substantial differential between the capital-gains rate and the ordinary rates makes such a substitution highly advantageous when the sale may be carried out without loss of control over the asset because the corporation to which the asset is sold is controlled by the individuals who make the sale.

Section 310 of this bill eliminates the tax advantage from such transactions by denying capital-gains treatment to the transferor with respect to sales or exchanges of depreciable property between a husband and a wife, or between an individual and a corporation, more than half of the outstanding stock of which is owned by or for him directly or indirectly. For the purpose of determining ownership of stock an individual will be considered as owning a portion of the stock held by a corporation, partnership, estate or trust which reflects his interest as a shareholder, partner or beneficiary. He will also be considered as owning stock owned directly or indirectly by or for his spouse and if he and his spouse own more than 10 percent of the outstanding stock of a company he will also be considered as owning stock held directly or indirectly, by or for his brothers and sisters, ancestors and lineal descendants.

Section 310 will apply only to sales or exchanges made after May 3, 1951, the date on which this committee's tentative decision on this section was announced.

G. DEALERS IN SECURITIES

Under existing law, dealers in securities are permitted to hold some securities as a personal investment. Gains or losses on those securities which are held by the taxpayer in his capacity as a dealer are treated as ordinary income. Capital gain or loss treatment is accorded the results of the transfer of securities which the taxpayer holds as an investor. Existing law also permits the transfer of securities from such a taxpayer's investment account to his inventory account and vice versa with corresponding changes in tax liabilities. These transfers increase the difficulty of determining in which portfolio specific securities were actually held, and facilitate the manipulation of the taxpayer's accounts so as to obtain ordinary loss treatment on securities sold at a loss and capital-gains treatment on those sold at a gain.

To forestall this practice, section 309 of this bill provides that in the case of a dealer in securities capital-gains treatment will be available only under certain specific conditions. The security in question must have been clearly identified in the dealer's records as "a security held for investment" within a period of 30 days after the date of its acquisition or after the date of enactment of the Revenue Act of 1951, whichever is later, and must not at any time thereafter have been held by the taxpayer "primarily for sale to customers in the ordinary course of his trade or business." Unless these terms are complied with, the gain on the sale of the security will be taxed as ordinary income.

Ordinary loss treatment will not apply where the security sold was at any time after this section becomes applicable clearly identified in the dealer's records as "a security held for investment."

Section 309 applies to sales or exchanges made more than 30 days after the date of enactment of this act.

H. GAIN FROM SALE OR EXCHANGE OF THE TAXPAYER'S RESIDENCE

Section 303 of this bill amends the present provisions relating to a gain on the sale of a taxpayer's principal residence so as to eliminate a hardship under existing law which provides that when a personal residence is sold at a gain the difference between its adjusted basis and the sale price is taxed as a capital gain. The hardship is accentuated when the transactions are necessitated by such facts as an increase in the size of the family or a change in the place of the taxpayer's employment. In these situations the transaction partakes of the nature of an involuntary conversion. Cases of this type are particularly numerous in periods of rapid change such as mobilization or reconversion. For this reason the need for remedial action at the present time is urgent.

Section 303 of this bill provides that when the sale of the taxpayer's principal residence is followed within a period of 1 year by the purchase of a substitute, or when the substitute is purchased within a year prior to the sale of the taxpayer's principal residence, gain shall be recognized only to the extent that the selling price of the old residence exceeds the

cost of the new one. Thus, if a dwelling purchased in 1940 for \$10,000 is sold in 1951 for \$15,000, there would ordinarily be a taxable gain of \$5,000 under existing law. Under this bill no portion of the gain would be taxable provided a substitute "principal residence" is purchased by the taxpayer within the stated period of time for a price of \$15,000 or more. If the replacement cost is less than \$15,000, say \$14,000, the amount taxable as gain will be \$1,000.

This special treatment is not limited to the "involuntary conversion" type of case, where the taxpayer is forced to sell his home because the place of his employment is changed. While the need for relief is especially clear in such cases, an attempt to confine the provision to them would increase the task of administration very much.

The adjusted basis of the new residence will be reduced by the amount of gain not recognized upon the sale of the old residence. Thus, if the replacement is purchased for \$19,000, the old residence cost \$10,000 and was sold for \$15,000, the adjusted basis of the new residence will be \$19,000 minus \$5,000, or \$14,000. This is equal to the cost of the old residence plus the additional funds invested at the time the new residence is purchased. If the second residence had been purchased for \$14,000, so that \$1,000 of gain on the sale of the old residence would be recognized, its basis would be \$14,000 minus \$4,000, or \$10,000.

For the purpose of qualifying a gain as a long-term capital gain the holding period of the residence acquired as a replacement in a set of transactions which qualify under the terms of this section of the bill will be the combined period of ownership of the successive principal residences of the taxpayer.

Section 303 extends to cases in which similar treatment is available under existing law under the involuntary conversion provisions of section 112 (f). Such cases arise when a home is destroyed by fire or is lost by seizure or by the exercise of the powers of requisition or condemnation and the proceeds are invested in a replacement. In such cases the new provision, and not section 112 (f), will apply. Generally this will result in more favorable treatment for the taxpayer than that available under the involuntary conversion provisions. The latter require the tracing of the expenditure of the funds obtained as a result of the loss of the previous residence, and substantial tax consequences result from such technicalities as a decision to use the money so received to repay a mortgage on the previous residence and to use other funds for the purchase of a replacement. Moreover, no relief is available under the involuntary conversion sections in cases where the replacement is acquired before the actual condemnation or requisition of the previous residence.

The taxpayer is not required to have actually been occupying his old residence on the date of its sale. Relief will be available even though the taxpayer moved into his new residence and rented the old one temporarily before its sale. Similarly, he may obtain relief even though he rents out his new residence temporarily before occupying it.

The special treatment provided under this section of the bill can be availed of only with respect to one sale or exchange per year, except when the taxpayer's new residence is involuntarily converted, in which case he will be treated as though a year had elapsed since the time of the previous sale of an old residence.

Section 303 of this bill applies to cases where one residence is exchanged for another, where a replacement residence is constructed by the taxpayer rather than purchased, and where the replacement is a residence which had to be reconstructed in order to permit its occupancy by the taxpayer. However, in cases where the replacement is built or reconstructed, only so much of the cost is counted as an offset against the selling price of his old residence as is properly chargeable against capital account within a period beginning 1 year prior to date of the sale of the old residence and ending 1 year after such date.

The ownership of stock in a cooperative apartment corporation will be treated as the equivalent of ownership of a residence, provided the purchaser or seller of such stock uses the apartment which it entitles him to occupy as his principal residence.

Regulations will be issued under which the taxpayer and his spouse acting singly or jointly may obtain the benefits of section 303 even though the spouse who sold the old residence was not the same as the one who purchased the new one, or the rights of the spouses in the new residence are not distributed in the same manner as their rights in the old residence. These regulations will apply only if the spouses consent to their application and both old and new residence are used by the taxpayer and his spouse as their principal residence.

Where the taxpayer's residence is part of a property also used for business purposes, as in the case of an apartment over a store building or a home on a farm, and the entire property is sold, the provisions of section 303 will apply only to that part of the property used as a residence, including the environs and outbuildings relating to the dwelling but not to those relating to the business operations.

These provisions apply to a trailer or houseboat if it is actually used as the taxpayer's principal residence.

In order to protect the Government in cases where there is an unreported taxable gain on the sale of the taxpayer's residence, either because he did not carry out his intention to buy a new residence or because some of the technical requirements were not met, the period for the assessment of a deficiency is extended to 3 years after the taxpayer has notified the Commissioner either that he has purchased a new residence, or that he has not acquired or does not intend to acquire a new residence within the prescribed period of time.

The benefits of section 303 of this bill will be applied to the sale of taxpayer's principal residence made after December 31, 1950.

The revenue loss will be about \$112 million annually.

I. PERCENTAGE DEPLETION

Under existing law depletion based on cost is available to all mining industries and in addition percentage depletion is available to oil, gas, sulfur, metal mines, and certain nonmetallic minerals. The allowable rate of percentage depletion is 5 percent in the case of coal, and 15 percent in the case of the other nonmetallic minerals except sulfur which is allowed 23 percent.

The testimony received by this committee both in connection with this bill and the bill which became the Revenue Act of 1950 revealed that in a number of cases nonmetallic minerals which are not in the enumerated group under existing law are competitive with those receiving percentage depletion, or have just as good a claim for such

treatment as the enumerated minerals. The testimony also indicated that the 5-percent rate allowed coal is of little practical value, and that the coal mining industry is peculiarly in need of more favorable tax treatment because of the inroads which alternative sources of energy, particularly oil and gas, have made on the potential markets of coal.

Section 304 of this bill adds to the list of nonmetallic minerals to which percentage depletion is available at a 15-percent rate, borax, fuller's earth, tripoli, refractory and fire clay, quartzite, perlite, diatomaceous earth, and metallurgical and chemical grade limestones. The amendment also makes it clear that the 15-percent rate applies to thenardite, whether or not obtained from brines, or mixtures of brine.

The bill increases the percentage allowed in the case of coal from 5 to 10 percent, and sets up a new group of minerals to which percentage depletion is available at the rate of 5 percent. This group consists of sand, gravel, stone, including pumice, scoria, and slate, brick and tile clay, shale, oyster shell, clam shell, granite, marble and asbetsos.

Most of these changes would have been made under the House version of the bill which became the Revenue Act of 1950 but they were eliminated from the final legislation largely because of the revenue loss involved. It is apparent, however, that the need for equalization is substantially greater now because of the additional taxes imposed under the legislation of 1950 and under this bill. Therefore, the committee believes that the proposed extension of the percentage depletion system is necessary in spite of the revenue loss involved. The latter is estimated to be about \$67 million in a full year's operation.

The amendments made by this section of the bill apply to taxable years beginning after December 31, 1950.

J. EXPENDITURES IN THE DEVELOPMENT OF MINES

Section 302 of this bill changes the treatment of development expenditures in the case of mines and other natural deposits except oil and gas wells. Under existing law and regulations all such expenditures in excess of net receipts from minerals sold are charged to capital account so long as the mine is in the development stage. When the mine has passed into the production stage such expenditures are deductible in the year in which the ore or mineral benefitting from such expenditures is sold. The transition from the development to the production stage occurs—

When the major portion of the mineral production is obtained from workings other than those opened for the purpose of development, or when the principal activity of the mine becomes the production of developed ore rather than the development of additional ores for mining.

It is possible for a mine to move back and forth between "development" and "production" with changes in the nature of its operations. The result in such a case would be that the same type of expenditures would be chargeable to capital account at one time and deductible as described above at another.

When a development cost is charged to capital outlay it will be recaptured through cost depletion. However, if the mine uses percentage depletion there will be no additional deduction specifically attributable to the capitalized development costs. This means that

in such cases the capital outlays for development during the development stage are, in effect, never deductible for tax purposes, except where the deduction available under cost depletion exceeds that which may be made under percentage depletion.

Witnesses appearing at the committee's public hearings on this bill emphasized the serious tax consequences which result from the requirement that development costs must be capitalized if incurred while the mine is in the development stage. It was emphasized that this rule raises a serious obstacle to expansion in the mining industry. The problem is particularly acute at the present time because of the shortage of many essential minerals and the desirability of major developments in the case of certain minerals such as iron.

Section 302 provides that expenditures paid or incurred after December 31, 1950, in the development of a mine or other natural deposit will be deductible ratably over the period during which the ores or minerals benefited by such expenditures are sold. This provision will apply even though the ore or minerals were produced in a year other than the year of the sale. This rule applies only when the expenditures are made after the existence of ores or minerals in commercially marketable quantities has been determined and the development stage has begun. It is not applied to oil or gas wells, where the problem at issue has been dealt with through the optional deduction of intangible drilling and development costs in the year they are incurred.

Expenditures made for the purchase of depreciable property will not be counted as development expenditures for this purpose but the depreciation charges which appear as the result of the use of such property for development purposes may qualify for such treatment as development costs.

Expenditures made for development will continue to increase the adjusted basis of the mine for computing gain or loss as under existing law. However, this basis will then be reduced as the deductions allowable under section 302 occur.

In order to prevent duplication of tax benefits, section 302 provides that such development expenditures will not be taken into account in determining the adjusted basis of the property for the purpose of computing depletion.

It is estimated that in a full year's operation this provision will involve a revenue loss of about \$20 million annually.

K. COAL ROYALTIES

Section 307 of this bill provides tax relief for the recipients of coal royalties. Most leases on coal properties are long-term and call for royalty payments expressed in cents per ton. Therefore, the lessor does not receive the automatic adjustment for price changes which occurs when a royalty is expressed as a percentage of the value of the mineral extracted from the property. Many of the existing coal leases are old and the royalty payment called for under them is small.

It is reported also that as a practical matter the lessor of a coal property is not likely to benefit from percentage depletion even under the new 10-percent rate provided in this bill, although it is anticipated that this rate will be of material benefit to the coal operators.

Section 307 extends to the recipients of coal royalties the capital-gains treatment now available to timber under section 117 (k) (2) of the Internal Revenue Code. It is intended by this provision that coal royalties receive the same treatment as timber royalties. In the case of timber coming under this section, percentage depletion is not allowed, and it also will not be available in the case of these coal royalties.

Section 307 applies to taxable years ending after December 31, 1950, but only with respect to amounts received or accrued after such date.

The revenue loss involved is estimated to be about \$10 million annually.

L. SALES OF LIVESTOCK USED FOR BREEDING, DAIRY OR DRAFT PURPOSES

Section 306 of the bill adds a new sentence at the end of section 117 (j) (1) which defines property used in the trade or business as including "livestock held by the taxpayer for draft, breeding, or dairy purposes for 12 months or more."

Your committee believes that the term "livestock" in this new sentence should be given a broad, rather than a narrow, interpretation; and that the gains from sales of livestock should be computed in accordance with the method of livestock accounting used by the taxpayer and presently recognized by the Bureau of Internal Revenue.

The revenue loss under this provision is expected to be \$15 million in a full year of operation.

M. FAMILY PARTNERSHIPS

Section 312 of your committee's bill is intended to harmonize the rules governing interests in the so-called family partnership with those generally applicable to other forms of property or business. Two principles governing attribution of income have long been accepted as basic: (1) income from property is attributable to the owner of the property; (2) income from personal services is attributable to the person rendering the services. There is no reason for applying different principles to partnership income. If an individual makes a bona fide gift of real estate, or of a share of corporate stock, the rent or dividend income is taxable to the donee. Your committee's amendment makes it clear that, however the owner of a partnership interest may have acquired such interest, the income is taxable to the owner, if he is the real owner. If the ownership is real, it does not matter what motivated the transfer to him or whether the business benefited from the entrance of the new partner.

Although there is no basis under existing statutes for any different treatment of partnership interests, some decisions in this field have ignored the principle that income from property is to be taxed to the owner of the property. Many court decisions since the decision of the Supreme Court in *Commissioner v. Culbertson* (337 U. S. 733) have held invalid for tax purposes family partnerships which arose by virtue of a gift of a partnership interest from one member of a family to another, where the donee performed no vital services for the partnership. Some of these cases apparently proceed upon the theory that a partnership cannot be valid for tax purposes unless

the intrafamily gift of capital is motivated by a desire to benefit the partnership business. Others seem to assume that a gift of a partnership interest is not complete because the donor contemplates the continued participation in the business of the donated capital. However, the frequency with which the Tax Court, since the *Culbertson* decision, has held invalid family partnerships based upon donations of capital, would seem to indicate that, although the opinions often refer to "intention," "business purpose," "reality," and "control," they have in practical effect reached results which suggest that an intrafamily gift of a partnership interest, where the donee performs no substantial services, will not usually be the basis of a valid partnership for tax purposes. We are informed that the settlement of many cases in the field is being held up by the reliance of the field offices of the Bureau of Internal Revenue upon some such theory. Whether or not the opinion of the Supreme Court in *Commissioner v. Tower* (327 U. S. 280) and the opinion of the Supreme Court in *Commissioner v. Culbertson* (337 U. S. 733), which attempted to explain the *Tower* decision, afford any justification for the confusion is not material—the confusion exists.

The amendment leaves the Commissioner and the courts free to inquire in any case whether the donee or purchaser actually owns the interest in the partnership which the transferor purports to have given or sold him. Cases will arise where the gift or sale is a mere sham. Other cases will arise where the transferor retains so many of the incidents of ownership that he will continue to be recognized as a substantial owner of the interest which he purports to have given away, as was held by the Supreme Court in an analogous trust situation involved in the case of *Helvering v. Clifford* (309 U. S. 351). The same standards apply in determining the bona fides of alleged family partnerships as in determining the bona fides of other transactions between family members. Transactions between persons in a close family group, whether or not involving partnership interests, afford much opportunity for deception and should be subject to close scrutiny. All the facts and circumstances at the time of the purported gift and during the periods preceding and following it may be taken into consideration in determining the bona fides or lack of bona fides of a purported gift or sale.

Not every restriction upon the complete and unfettered control by the donee of the property donated will be indicative of sham in the transaction. Contractual restrictions may be of the character incident to the normal relationships among partners. Substantial powers may be retained by the transferor as a managing partner or in any other fiduciary capacity which, when considered in the light of all the circumstances, will not indicate any lack of true ownership in the transferee. In weighing the effect of a retention of any power upon the bona fides of a purported gift or sale, a power exercisable for the benefit of others must be distinguished from a power vested in the transferor for his own benefit.

Since legislation is now necessary to make clear the fundamental principle that, where there is a real transfer of ownership, a gift of a family partnership interest is to be respected for tax purposes without regard to the motives which actuated the transfer, it is considered appropriate at the same time to provide specific safeguards—whether or not such safeguards may be inherent in the general rule—against

the use of the partnership device to accomplish the deflection of income from the real owner.

Therefore the bill provides that in the case of any partnership interest created by gift the allocation of income according to the terms of the partnership agreement shall be controlling for income tax purposes except when the shares are allocated without proper allowance of reasonable compensation for services rendered to the partnership by the donor, and except to the extent that the allocation to the donated capital is proportionately greater than that attributable to the donor's capital. In such cases a reasonable allowance will be made for the services rendered by the partners, and the balance of the income will be allocated according to the amount of capital which the several partners have invested. However, the distributive share of a partner in the earnings of the partnership will not be diminished because of absence due to military service.

When more than one member of a family is a member of a partnership all interests purchased by one member of the family from another will be treated as though the transfer were made by gift. For this purpose the family of an individual includes his spouse, ancestors, lineal descendants, and any trust for the primary benefit of such persons.

Section 313 applies to taxable years beginning after December 31, 1950. No inferences are to be drawn from its enactment with respect to taxable years beginning prior to January 1, 1951.

N. VENTURE CAPITAL COMPANIES

Section 312 of this bill will permit certain so-called venture capital companies to qualify as regulated investment companies. Under Supplement Q of the Internal Revenue Code regulated investment companies which distribute currently at least 90 percent of their income, and meet certain other tests set out in section 361 (b) of the code are not taxed upon amounts distributed to shareholders. One of these tests is that the company must not invest more than 50 percent of its assets in companies in which it holds more than 10 percent of the value of the voting securities. This rule has the effect of denying special treatment to companies which undertake to control the enterprises in which the bulk of their funds are placed. It clearly excludes a holding company in the ordinary sense of the word.

In the public hearings on this bill it was brought to the attention of this committee that the 10-percent stock-ownership limitation constituted a serious impediment to the development of so-called venture capital companies. These are investment companies which are used principally to provide capital for other companies engaged in the development or exploitation of inventions, technological improvements, new processes and products which were not previously generally available. In such cases the investment company must provide most of the capital needed to finance the venture and will frequently hold more than 50 percent of its assets in stock representing more than 10 percent of the voting stock of the operating companies. As a result it cannot qualify under Supplement Q if it invests more than 50 percent of its assets in such companies. Unless this rule is amended, it will not be possible for an investment company to devote itself princi-

pally to the development of such ventures and obtain the benefits of Supplement Q.

The venture capital company promises to serve as an instrument for directing an increasing portion of the current savings of the country into the small, innovating ventures which are so important for long-run economic progress. Therefore, section 312 of this bill amends section 361 of the code so as to permit venture capital companies to qualify as regulated investment companies. This is accomplished by waiving, under certain conditions, the 10-percent limitation as to certain types of holdings. To qualify for this exception the investment company must obtain a certification from the Securities and Exchange Commission which states that the investment company is a registered management investment company as defined in the Investment Company Act of 1940 and that its principal business is the furnishing of capital to companies principally engaged in the development or exploitation of inventions, technological improvements, new processes or products not previously generally available. This certification will be made under regulations to be issued by the Securities and Exchange Commission. For the purposes of certification a company in which the investment company has placed funds will be deemed to be principally engaged in one of the specified types of activity for a period of at least 10 years after the date on which the investment company first acquired the securities of the operating company, provided the operating company was principally engaged in the specified activities on the date of such acquisition.

To forestall the possibility that this amendment will permit holding companies to obtain the benefits of Supplement Q, section 312 of this bill also provides that the 10-percent rule shall not be waived in the case of an investment company which, at the close of the taxable year, has more than 25 percent of its funds invested in companies, the securities of which it has held for more than 10 years.

■ All the other limitations on regulated investment companies now imposed under Supplement Q are retained.

Section 312 is effective with respect to taxable years beginning after December 31, 1950. The revenue effect of this provision is small.

O. EXEMPTION OF EDUCATIONAL "FEEDER" CORPORATIONS FOR PRIOR YEARS

The Revenue Act of 1950 included a series of provisions which, under specified conditions, resulted in the imposition of taxes on educational, charitable, and certain other tax-exempt organizations, foundations, and trusts. Among these provisions was one which for 1951 and subsequent years specifically denied exemption to "feeder" corporations, that is, corporations carrying on a trade or business for profit whose profits inure exclusively to organizations exempt under section 101 of the code. With respect to prior years the tax status of such corporations was then in litigation. With respect to these years the Revenue Act of 1950 provided that no tax would be asserted for years prior to 1947 unless a deficiency had already been asserted, or taxes had already been assessed or paid. In this connection the House conferees on the Revenue Act of 1950 stated that they believed undue hardship would arise if any of these educational feeder corporations

were required to pay taxes on income which had already been spent to carry on educational programs, and expressed the hope that this matter would be considered in subsequent legislation, since the question was not in conference.

In conformance with the views expressed by the House conferees on the Revenue Act of 1950, section 501 of your committee's bill amends section 302 of the Revenue Act of 1950 to provide that for years prior to 1951 exemption is not to be denied feeder corporations if their profits inure to a regularly established school, college, or university.

This provision is expected to have no permanent effect on revenues.

P. ADDITIONAL WITHHOLDING UPON AGREEMENT BY EMPLOYER AND EMPLOYEE

Frequently concern is expressed by taxpayers with income above the first surtax bracket because the entire amount of tax due is not withheld on their wages or salary. They dislike the necessity of making a payment with their declaration of estimated tax in March, or the necessity of making quarterly payments. However, it is not feasible to establish a system of general application which will withhold the total tax due in all cases, because, as a result of such factors as variations in deductions and income not subject to withholding, the additional tax due differs widely from case to case.

In individual instances, however, where the taxpayer can estimate quite accurately the amount of the additional tax due and the employer finds the additional withholding is not burdensome, a voluntary system is feasible and would be a convenience to the taxpayer. For these reasons section 223 of the bill amends section 1622 of the code to provide that additional withholding may be authorized by regulation where the employer and employee agree to it. No additional revenue is expected to be provided by this provision.

Q. UNITED STATES BONDS HELD BY NONRESIDENT ALIENS

Section 503 of this bill deals with the status under the estate and gift taxes of obligations of the United States Government owned by nonresident aliens not engaged in trade or business in the United States. Prior to March 1, 1941, the transfers of such obligations were exempt by regulation even though the transfer of similar securities issued by domestic corporations was taxable when the evidence of the obligation was in the United States. This exemption was based on the theory that an exemption from "all taxation" of such bonds when held by foreign investors included exemption under the estate and gift taxes.

On March 1, 1941, a new regulation was issued which made the taxability of transfers of such securities under the estate and gift taxes depend on the same considerations which would apply in the case of bonds of domestic corporations. The new ruling was based on the theory that the exemption of such Government securities from "all taxation" meant exemption from direct taxes only and did not include exemption from the transfer taxes. The new regulation applied only to securities issued after March 1, 1941.

This revised regulation was held to be invalid in *Jandorf's Estate v. Comm.* (171 F. (2d) 464), a decision of the Court of Appeals, Second Circuit, dated December 21, 1948, and in *The Pennsylvania Company v. United States*, a decision of the Court of Appeals, Third Circuit, in November 1950.

Section 503 of this bill gives statutory sanction to the policy of the March 1, 1941, regulation. The result will be that for estate and gift tax purposes United States Government securities will receive the same treatment as other types of domestic bonds. This treatment will also conform with the policy of taxing the interest on such Government bonds under the income tax when received by nonresident aliens.

Section 503 will apply only to obligations issued by the United States on or after March 1, 1941, which are transferred in the estates of decedents who die after the date of enactment of the Revenue Act of 1951 or by gifts made after such date.

The revenue effects of this provision are minor.

VI. EXCISE TAX CHANGES

It is estimated that at levels of production anticipated in the fiscal year 1952 the excise tax changes made by your committee's bill when fully effective will raise revenues by \$1,252 million. However, these excise tax changes will not be effective until the first day of the first month which begins more than 10 days after the date of enactment of the bill. Assuming that September 1 is the effective date, it is estimated that this bill will increase excise tax revenues by \$1,037 million in the fiscal year 1952 (this includes the floor stock taxes and the floor stock refund) raising total receipts for 1952 from excises to \$9,597 million.

As shown in table 11 almost all of the excise tax revenue provided by this bill is raised from the manufacturers' excises, the new taxes on gambling, and the taxes on alcoholic beverages and tobacco. No rate increases are provided in the case of the retail excises, the excises on transportation and communication or the admissions taxes, because the rates of these taxes generally are already quite high. Not only are most of these taxes imposed at rates around 20 percent, but also they are based on the retail price or the amount charged the consumer, which may range up to twice the manufacturer's price. As a result, these rates now are generally 3 to 4 times as high as most of the manufacturers' excises, usually levied at a 10 percent rate on the manufacturers' prices.

TABLE 11.—*Excise tax revenue raised by the bill by major sources*

[At estimated fiscal year 1952 levels of production and consumption but in a full year of operation]

Type of excise tax	Additional revenue (in millions)
Alcoholic beverages.....	\$252
Tobacco products.....	177
Manufacturer.....	447
Retail.....	—5
Transportation and communication.....	—5
Amusement and recreation.....	—21
Gambling.....	407
Total.....	1, 252

A. ALCOHOLIC BEVERAGES

The additional revenue it is estimated will be derived from the taxes on alcoholic beverages in a full year of operation is distributed among the various excises as follows:

	[In millions]
Distilled spirits (including increased draw-back)-----	\$168
Beer-----	68
Wines-----	8
Occupational taxes on dealers in liquor-----	8
Total-----	252

1. *Distilled spirits*

Section 451 of the bill increases the tax on distilled spirits imposed by sections 1650 and 2800 of the Internal Revenue Code from \$9 to \$10.50 per proof gallon. The increase of \$1.50 per proof gallon amounts to about 26 cents a fifth on the ordinary type of whisky bottled at about 85 proof. Under present law the \$9 per gallon tax on distilled spirits averages about 40 percent of the retail price per bottle, including tax. The tax imposed by the bill would raise this figure to about 43 percent. This assumes the addition in full of the tax to current prices, but no price mark-up on the tax.

During World War II and the immediate postwar years consumption of distilled spirits climbed almost continuously in spite of higher liquor taxes and prices, reaching a peak consumption in 1946 when consumers purchased more than 230 million wine gallons of distilled spirits for which they spent \$5 billion, or 3 percent of their total disposable income. High income levels and the inability of consumers to purchase scarce durable goods probably were the most important factors in accounting for this high consumption level. Although consumption of liquor declined during the postwar years, since the outbreak of hostilities in Korea it has again been increasing, and the 1950 consumption of 190 million wine gallons was higher than in any prior years except 1945 and 1946. The acceleration of the defense program presents the likelihood that income levels again will rise and that consumers again will have to cut down their purchases of durable goods. Under these conditions your committee believes that a \$1.50 per gallon increase in the tax on distilled spirits will not seriously affect the consumption level of liquor.

From the standpoint of the consumer it is not believed that this tax increase will prove to be particularly burdensome, since the limited data available suggest that up to income levels of \$5,000 this tax bears about equally on the various income levels.

Your committee carefully reviewed the increase in the tax on distilled spirits with reference to the problem of bootlegging. It found that even under present tax rates there is a substantial financial incentive to engage in illicit operations of this type, which had been held at a relatively low level only as a result of enforcement measures. However, any increased financial incentive for illicit operations resulting from the tax increase provided by your committee's bill is likely to be more than offset by a tightening of the labor supply available for these operations and by higher incomes on the part of consumers, which will decrease the importance of the price differential between tax-paid and non-tax-paid liquor. However, it was recognized that too large an

increase in the tax on distilled spirits might well result in a sizable increase in illicit operations.

At the present time, although the general tax rate on distilled spirits is \$9 a proof gallon, a draw-back of \$6 per proof gallon is provided for distilled spirits used for medicines, medicinal preparations, food products, flavors, or flavoring extracts which are unfit for beverage purposes, leaving a net tax of \$3 per proof gallon in such cases. Draw-backs are used rather than reducing the rate of tax, because a lower rate might result in distilled spirits being diverted to beverage purposes on which the higher rate of tax should be paid. Using these medicines and nonbeverage food products as a source of revenue, however, appears to be in contradiction to the policy generally followed of not imposing excise taxes on medicines or food. In part this principle is recognized under present law by providing a draw-back of all but \$3 of the tax per proof gallon. Your committee's bill recognizes this principle in full by increasing these draw-backs so that a net tax of only \$1 per proof gallon, sufficient to cover administrative costs, is finally paid. With the tax rate of \$10.50 per proof gallon this is accomplished in section 462 of the bill by providing in section 3250 of the code a draw-back of \$9.50 per proof gallon.

It is estimated that in a full year of operation the changes made in the tax on distilled spirits by your committee's bill will increase revenues by \$168 million.

2. Beer

Section 453 of the bill increases the tax imposed on fermented malt liquor, or beer, by sections 3150 and 1650 of the code by \$1 per barrel, or from the \$8 per barrel provided by present law to \$9 per barrel. This is an increase in tax of $12\frac{1}{2}$ percent as contrasted to an increase of $16\frac{2}{3}$ percent provided in the case of distilled spirits. Under present law the tax on beer represents about 15 percent of the average retail price and under your committee's bill this is increased to between 16 and 17 percent. In the case of a 12-ounce bottle of beer the tax increase provided by the bill represents an increase of about one-third of 1 cent.

The increase provided by the bill for beer is smaller than that provided for distilled spirits because your committee believes that beer to a greater extent is consumed by the lower income groups and, therefore, that an increase in this tax generally is more burdensome than the tax on distilled spirits.

With the present high income and consumption levels it appears probable that much, if not all, of the tax increase provided for beer can be shifted by the industry to the consumer without seriously affecting the current level of consumption. Thus, it is not anticipated that this tax increase will have any important effect on the industry.

In a full year of operations it is estimated that the \$1 per barrel increase in the tax on beer provided by your committee's bill will raise revenues by about \$68 million.

3. Wines

Section 452 of the bill amends sections 3030 and 1650 of the code to provide for the same increase in the tax on wines as in the case of beer, namely, an increase of approximately $12\frac{1}{2}$ percent. Thus, in

the case of still wines, including vermouth, the tax per gallon would be—

(a) increased from 15 cents to 17 cents where the alcoholic content of the wine is not more than 14 percent;

(b) increased from 60 cents to 67 cents where the alcoholic content of the wine is over 14 percent but not over 21 percent; and

(c) increased from \$2 to \$2.25 where the alcoholic content of the wine is over 21 percent but not over 24 percent.¹

In the case of sparkling wines, liqueurs, and cordials the tax per half pint would be:

(a) increased from 15 cents to 17 cents in the case of champagne or sparkling wines; and

(b) increased from 10 cents to 12 cents in the case of liqueurs, cordials, and artificially carbonated wines.

Most of the wine consumption in the United States today is represented by the first two categories of still wines. Natural, or table, wines with an alcoholic content not over 14 percent and including such wines as sauterne, claret, and burgundy represent about one-quarter of the total consumption. Sweet or dessert wines with an alcoholic content between 14 and 21 percent and including such wines as port, sherry, tokay, and muscatel represent approximately three-fourths of the total consumption in the United States today. These wines are fortified with brandy or alcohol before the natural fermentation is completed. Sparkling wines account for most of the small remaining consumption in the United States today and in large part represent imports.

In terms of retail price the tax under present law represents about 4 percent of the retail price including tax, in the case of table wines, and would be increased by about one-half of 1 percent under your committee's bill. The tax on sweet wines under present law represents about 15 percent of the retail price and under the bill this percentage would be increased by slightly more than 1 percentage point. The tax on sparkling wines represents about 25 percent of the retail price under present law and under the bill this would be increased to about 26½ percent. Thus the rate of tax under the bill will continue to be graduated in accordance with alcoholic content.

Your committee deemed it appropriate to make only a moderate increase in the case of the taxes on wines because of the importance of wines to the grape-growing industry. Between one-third and one-half of the total grape crop is customarily absorbed by wine. The demand for wine, therefore, also has an important effect on the prices which can be obtained by producers for raisins and fresh grapes, the two other important uses of grapes. Moreover, in view of the fact that it has been necessary for the Department of Agriculture at times since the end of World War II to support the price of raisins, it would appear inappropriate for your committee to make a substantial increase in the tax on wine which might have the effect of requiring further price supports. In addition it should be pointed out that wine consumption in the United States relative to consumption of other forms of alcoholic beverages is relatively low when compared to relationships generally established abroad. Moreover, the wine industry is one of the few industries which has been classified under the excess-profits tax as a depressed industry.

¹ Wines with alcoholic content in excess of 24 percent are subject to the tax on distilled spirits.

The effect of your committee's bill in the case of the taxes on wines is to raise revenues by an estimated \$8 million in a year in which the increase is fully effective.

4. Occupational taxes on dealers in liquor

Retail dealers in liquor other than those dealing exclusively in wine and beer are required under section 3250 of the code to pay a special annual occupational tax of \$27.50. Section 461 of the bill raises this occupational tax to \$50 a year. Under present law the low tax has made it impractical from an administrative standpoint for the Bureau of Internal Revenue to verify the names and addresses of persons paying this special occupational tax. The attention of your committee has been called to many cases where incorrect names and addresses have been given with the probable intention of avoiding detection by State and local liquor authorities. Your committee believes it feasible for the Bureau of Internal Revenue to establish a verification system for all payees of this tax and it is the intention of your committee that the Bureau of Internal Revenue do so. Severe penalties for fraudulent returns are already provided under existing law. It is estimated that this provision of your committee's bill will increase collections by \$7 million in a full year of operation.

Section 461 of your committee's bill also increases the occupational taxes on wholesale dealers in liquors and wholesale dealers in malt liquors. Section 3250 (a) (1) of the code imposes a special occupational tax of \$110 on wholesale dealers in liquors. This includes wholesale dealers in wines, as well as wholesale dealers in distilled spirits. The bill raises this tax to \$200. Section 3250 (d) of the code provides an occupational tax of \$55 for wholesale dealers in malt liquor. This tax is raised to \$100. It is estimated that in a full year of operation the increase in these occupational taxes on wholesale dealers in liquors and malt liquors will raise revenues by \$1 million annually.

B. TOBACCO PRODUCTS

In the case of tobacco products section 421 of this bill increases present taxes only in the case of small ("standard" and "king" sized) cigarettes. No increases are provided either in the case of manufactured tobacco or cigars, since both of these industries appear to be facing a declining demand for their product. The production of cigars, for example, has decreased from 8 billion in 1920 to about 5½ billion in 1950.

In the case of small cigarettes, the bill increases the tax from the \$3.50 per thousand provided by section 2000 of the code to \$4 per thousand. In effect this raises the tax on the ordinary package of 20 cigarettes from 7 cents to 8 cents. The present tax on cigarettes represents about 34 percent of the retail price including tax. The bill would raise this to about 37 percent.

The increase provided by this bill is as large as the combined increases made in this tax during and just before World War II. In view of the importance of the sales of tobacco to a large number of farmers in the country, this is as large an increase in this tax as your committee believes it is appropriate to make.

It is estimated that in a full year of operation this action by your committee will increase revenues by \$177 million a year.

C. MANUFACTURERS' EXCISES

The additional revenue it is estimated will be derived from manufacturers' excises is distributed among the various excises as follows:

	[In millions]
Gasoline, and diesel fuel used by highway vehicles.....	\$220
Passenger cars and motorcycles.....	196
Automobile trucks, busses, and truck trailers.....	61
Automotive parts and accessories.....	56
Tires on toys, etc.....	-1
Electric, gas, and oil appliances.....	18
Navigation receivers sold to the U. S. Government.....	None
Sporting goods.....	Negligible
Photographic apparatus and film.....	-23
Electrical energy.....	-104
Fountain pens, ball-point pens, and mechanical pencils.....	24
Total.....	447

1. Gasoline and diesel fuel

Section 488 of the bill provides for a one-half cent increase in the gasoline tax, raising the Federal gasoline tax, provided by section 3412 of the code, from 1½ cents to 2 cents per gallon. Since the tax on gasoline is a specific and not an ad valorem tax, the percentage relationship of the tax to the retail price will vary with the variation in the price of gasoline. Thus, although in 1950 the tax was 6 percent of the retail price, including tax, in 1940 it was 8½ percent of the retail price. This is accounted for by the rise in the average price of gasoline in the past 10 years. The average price in 1939, for example, was 13.3 cents per gallon before the State tax, while in 1950 the average price was 20 cents per gallon. The action by your committee, which would result in a tax equal to about 8 percent of the retail price of gasoline including tax, does not quite restore the relationship existing in 1940.

The consumption of gasoline has shown one of the most consistent patterns of increase over the last few decades. The production of gasoline in 1940, for example, amounted to 615 million barrels and in 1950 this had increased to 1,024 million barrels. The domestic demand for gasoline has grown at an average annual rate of 7 percent since the end of World War II and appears to be increasing somewhat more rapidly now. The 1950 demand for gasoline was 9 percent in excess of the demand for 1949 and the Bureau of Mines has estimated that the demand in 1951 will be 9½ percent in excess of the demand in 1950. This substantial increase can, of course, in large part be accounted for by the increased numbers of passenger automobiles and trucks on the road. For example, registration of automobiles and trucks in the period 1945 to 1950 increased over 50 percent. Under these conditions it appears probable that an increase in the gasoline tax of the size provided by this bill can readily be passed on to the consumers of gasoline. This appears especially likely in view of the fact that, in the case of gasoline, demand does not change much with variations in price.

Despite this strong demand the increase in the gasoline tax under your committee's bill is limited to a half cent per gallon. Payments for gasoline represent costs of doing business in the case of gasoline consumed by trucks and in the case of an important segment of the gasoline used in passenger cars. In addition to this, your committee

recognized that the gasoline tax represents an important source of revenue to the States. The usual State tax ranges from 4 to 5 cents per gallon but eight States have a 7 cents per gallon tax and one has a tax of 9 cents per gallon. Too substantial an increase in the gasoline tax by the Federal Government might affect the use of this revenue source by the States.

Section 441 of the bill adds a new section 2450 to the code imposing a tax of 2 cents per gallon on diesel fuel for diesel-powered highway vehicles. The tax is imposed on the retailer selling the diesel fuel for highway use and also on persons using the diesel fuel in highway vehicles if no tax was collected from the retailer.

Your committee believes that the taxation of diesel fuel used on highways on the same basis as gasoline is necessary in order to prevent discrimination against vehicles powered by gasoline. The tax is imposed at the retail level in this case, however, because substantially the same type of fuel is also extensively used for heating in fuel-oil furnaces. Thus, it is impossible for the manufacturer to determine the ultimate use of the fuel at the time he sells it. The system of requiring both the retailer and the user of the diesel fuel for highway purposes to collect the tax is instituted as a means of better controlling the collection of the tax.

It is estimated that in a full year of operation the increase of one-half cent per gallon in the tax on gasoline and the imposition of a tax of 2 cents per gallon tax on diesel fuel used by highway vehicles will raise revenues by \$220 million.

2. Passenger cars and motorcycles

Section 481 of the bill increases the tax provided by section 3403 of the code on passenger cars and motorcycles from 7 to 10 percent of the manufacturers' price. This increase, however, does not apply to house trailers. For these trailers the tax remains at 7 percent. The present tax on passenger cars on the average represents 5 percent of the retail price, including tax. The increase provided by this bill will raise this to somewhat over 7 percent.

The demand for new passenger cars has continued at a very high level since the end of World War II not only because of the backlog of demand from the war period when new cars were not available, but also because high income levels have made the purchase of cars possible to many persons not formerly able to buy them. The unit output in 1950, for example, represented 232 percent of the output in 1939. Moreover, the value of the 1950 output was \$8.8 billion, or about five times the value of the output in 1939.

Although it appears likely that the demand for passenger cars will remain at a very high level, it is probable that the supply of automobiles available will be cut because of their substantial use of critical materials. Twenty percent of the total steel output, for example, has been going to the production of automobiles. For the second quarter of 1951 the steel allocated to automobiles was reduced 20 percent below the 1950 average, and in the third quarter this percentage cut has been further increased to about 28½ percent. Based on the percentage cut in steel in the third quarter it is estimated that production in this quarter will be at an annual rate of 4.8 million passenger cars, which still would be above the 4½ million cars produced

in 1949, and substantially above the annual production in the 10 years prior to World War II.

Under these conditions it appears probable that an increase in tax of the size proposed by your committee can readily be passed forward to the consumer without any cut in the effective demand for new passenger cars. Since the tax is not imposed on second-hand cars, which in large measure represent the purchases made by the lower-income groups, it appears probable that the tax increase made by the bill will not bear heavily on these groups.

However, your committee recognizes that cars represent a necessity to a large segment of the population under present conditions and, therefore, deemed it inappropriate to increase the rate above 10 percent on the manufacturer's price, the rate applying in the case of most manufacturers' excises. Moreover, the purchase of a car represents a larger outlay on the part of the consumer than is true in the case of most other durable consumption items, with the result that the amount of the tax payment in these cases is larger than in the purchase of other durable goods and, therefore, likely to be considered more burdensome.

Your committee's bill does not make an increase in the tax on house trailers because it is recognized that during periods of emergency, such as the present, the bulk of these house trailers is used for housing by defense workers and others rather than as a means of transportation.

It is estimated that in a full year of operation this provision of your committee's bill would increase revenues by \$196 million.

3. Automobile trucks, busses, and truck trailers

Section 481 of the bill also increases the tax on automobile trucks, busses, and truck trailers, provided by section 3403 of the code, from 5 to 8 percent of the manufacturer's price.

Since, as previously noted, the tax on passenger cars is increased to 10 percent, this maintains the traditionally lower tax for the types of automotive transportation especially designed for business. Your committee believes that it is desirable to retain a lower tax on trucks and related types of automotive transportation because it is recognized that these represent almost exclusively operating costs to businesses. A high rate of tax in such cases would be likely to be passed on in the price of commodities generally. However, it is believed that the moderate increase provided by your committee's bill is desirable on much the same grounds as the increase provided in the case of passenger automobiles, namely, the anticipated high demand for this type of automotive transportation coupled with the likelihood of a curtailment in the supply available.

It is estimated that in a full year of operation this provision of your committee's bill will increase revenues by \$61 million.

4. Automotive parts and accessories

Section 481 of the bill also increases the tax on automotive parts and accessories, provided by section 3403 of the code, from 5 to 8 percent of the manufacturers' price. Since the tax on automotive trucks, busses, and truck trailers likewise is raised to 8 percent, this will retain a uniform rate of tax for these two types of items, as is provided by present law. Even though new cars are taxed at 10 percent, the parts and accessories for them, when not purchased with

the car, are included in the base of this 8-percent tax, because in many cases the parts for passenger cars and trucks are interchangeable. Moreover, it is also believed desirable to impose a lower rate of tax on parts and accessories for passenger cars than on the new cars themselves, because the bulk of the parts and accessories are purchased by owners of old or second-hand cars who are largely in the lower-income groups.

With respect to reconditioned or rebuilt parts, where such sales are subject to the parts and accessories tax under present law, section 481 of the bill provides an amendment which excludes from the tax base the fair market value of any like part traded in for a reconditioned or rebuilt part. Where an automotive part is not performing satisfactorily and the car owner cannot afford a new one, he has the choice of either having the old one reconditioned, usually in a local shop, or of trading in the old part on a similar one which already has been reconditioned. The first of these alternatives, having the old part reconditioned, is not subject to the tax on automotive parts and accessories since there is no transfer of title. However, this alternative is not widely availed of because the car owner is not able to use his car during the reconditioning period. Under the second alternative, trading in the old part on a similar one which already has been reconditioned, there is a transfer of title and therefore such sales are subject to tax. The amount subject to tax in these cases is the charge to the car owner, plus the fair market value of the part he trades in. This not only presents the difficult administrative problem of determining the fair market value of the old part, but also is inequitable since trading in the old part is a substitute for repairing the car owner's old part. Only the value added in this case could be considered as new manufacturing, since in effect the car owner already owned the portion of the reconditioned part representing the value of the old part. To tax him on the fair market value of the part he turns in is to tax him on something he already owns. The exclusion of the value of the trade-in, as provided by your committee's amendment, removes this inequity. This also removes the difficult administrative problem of determining the fair market value of the old part, since the tax base will be limited to the cash payment required.

Section 481 of the bill also amends section 3443 of the code to provide for a credit or refund of the tax on automotive parts and accessories where the parts or accessories are used or resold for the repair or replacement of farm equipment parts. However, this crediting or refunding device is not made available in the case of spark plugs, storage batteries, leaf springs, coils, timers, and tire chains.

An exemption is already provided by existing regulations for automotive parts and accessories sold to manufacturers for use on new farm equipment with the exception of the items specifically listed above. The provision therefore merely applies the same policy to sales of repair or replacement parts, making use in this case of a crediting or refunding procedure. This appears desirable because it is not believed that Congress ever intended to subject farm tractors and equipment generally to this tax. With the exception of the specific items noted above on which the tax will still apply, it is believed that these credits or refunds will present no serious administrative problems.

It is estimated that the rate increase in the tax on automotive parts and accessories, taken together with the changes in the base of the tax, will increase revenues in a full year of operation by \$56 million.

5. *Tires on toys, etc.*

Section 481 of the bill also makes a minor revision in the 5-cent-per-pound manufacturers' tax on tires. Section 3400 of the code is amended to exclude from this tax tires which are not more than 20 inches in diameter and one and three-fourths of an inch in cross section if the tires are of all-rubber construction. The bill also excludes tires with internal wire fasteners irrespective of size.

Under present law the tax on tires is applicable to all tires regardless of the use for which they are intended. Consequently it applies in the case of tires for baby buggies, lawn mowers, children's tricycles, scooters, coaster wagons, etc. Since the manufacturer's price on tires of these types is generally low, the 5-cent-per-pound tire tax may account for as much as 25 to 50 percent of the price of the tires. Thus, the tax on the tires of these toys, etc., appears unreasonably high in terms of ad valorem rates. Moreover, it is not believed that it is a primary purpose of the tax on tires to collect revenue with respect to articles of these types.

It is estimated that in a full year of operation this change will result in a revenue loss of approximately \$1 million a year.

6. *Electric, gas, and oil appliances*

Section 484 of the bill expands the base of the 10-percent manufacturers' tax on electric, gas, and oil appliances provided by section 3406 of the code to include the following household types of items not subject to tax under present law:

- | | |
|---|---|
| 1. Electric belt-driven fans. | 9. Electric ice cream freezers. |
| 2. Electric or gas clothes driers. | 10. Electric mangles. |
| 3. Electric door chimes. | 11. Electric motion- or still-picture projectors. |
| 4. Electric dehumidifiers. | 12. Electric pants pressers. |
| 5. Electric dishwashers. | 13. Electric shavers. |
| 6. Electric floor polishers and waxers. | 14. Power lawn mowers. |
| 7. Electric food choppers and grinders. | 15. Electric sheets and spreads. |
| 8. Electric hedge trimmers. | |

It also deletes electric heating pads from the items presently subject to tax.

Of the items added to the base of the tax the most important in terms of revenue are the power-lawn mowers, the electric dishwashers, the electric and gas clothes driers, and the electric shavers.

The tax under present law applies to—

1. Electric, gas, and oil water heaters.
2. Electric, gas, and oil appliances for cooking or warming food or beverages for consumption on the premises.
3. Electric direct motor-driven fans and air circulators.
4. Electric flatirons.
5. Electric air heaters (but not furnaces).
6. Electric immersion heaters.
7. Electric heating pads and blankets.
8. Electric mixers, whippers, and juicers.

The items added to the base of this tax by your committee are directly or indirectly competitive with many of the items now in the base of the tax. An example of direct competition exists in the case of the direct motor-driven fans subject to tax under present law and the belt-driven fans which are presently free of tax. Moreover, in

large measure the particular items added by your committee are not considered to be necessities and thus a tax on these items is not likely to be burdensome. However, your committee did not deem it appropriate to raise the rate of this tax in view of the fact that a number of items already in the base under present law are generally considered to be necessities.

As in the case of passenger cars, it is anticipated that with the current high-income levels the demand for electric appliances will remain strong, while the supply available is likely to decline somewhat as a result of the shift of critical materials from civilian products to products needed for the defense effort. The steel used in electric appliances, for example, has been cut back by 30 percent for the third quarter of 1951. In view of these factors it appears unlikely that expanding the base of this tax to include the new items listed above will have any effect upon the sales of the electric appliances industry.

From the standpoint of the consumer also this tax appears to be relatively less burdensome. The data available indicate that this tax tends to bear less heavily on the lower-income groups than most other excise taxes now imposed. In view of the fact that the items added by your committee are not generally considered to be necessities, the change made in this tax by your committee is likely to make it still more progressive. Moreover, this 10-percent manufacturers' tax, when expressed as a percentage of the retail price of the electric, gas, and oil appliances exclusive of tax represents only about a 6-percent tax.

Electric heating pads were removed from the base of the tax on electric, gas, and oil appliances because these pads are extensively used for medical purposes and your committee does not believe that such items are proper subjects for excise taxes.

It is estimated that in a full year of operation the new items added to the base of the electric, gas, and oil appliances tax will increase revenues by about \$19 million a year, while the exclusion of electric heating pads will reduce revenues by \$1 million annually.

7. Navigation receivers sold to the United States Government

Section 482 of the bill makes a minor revision in the base of the 10-percent manufacturers' excise tax on radio receiving sets, television receiving sets, etc., imposed by section 3404 of the code. "A communication, detection, or navigation receiver of the type used in commercial, military, or marine installations," is exempted from this tax under your committee's bill if sold to the United States for its exclusive use. This exemption is granted to remove compliance problems. No revenue is, of course, involved, since the tax in these cases today is ultimately paid by the United States Government.

8. Sporting goods

Section 483 of the bill makes two changes in the 10-percent manufacturers' tax imposed on sporting goods by section 3406 of the code.

Under present law this tax covers virtually all types of sporting equipment although toy or children-sized items are exempted from this tax in the case of certain types of sporting equipment. Baseball bats, for example, are not taxed if they are less than 28 inches in length. However, other types of sporting goods such as sleds and roller skates, which are largely used by children, are taxed regardless of their size. Also, a number of articles subject to the sporting goods tax are used

largely as a part of school and college athletic programs. Sale for use in the public schools are exempt (as purchases by subdivisions of State governments) so that the net revenue from taxing these articles is quite small, although the administration of the exemption imposes a considerable burden on the sporting goods dealers. Moreover, the nonexempt sales of many of the taxed articles are made largely to private schools, which has been objected to on the grounds that it is discriminatory treatment. For these reasons the first action of your committee with respect to the sporting goods tax is to remove from the application of the tax specific types of articles which are used predominantly for school sports and by children. The second action of the committee is to raise the rate of tax from 10 percent to 15 percent of the manufacturer's price with respect to the items remaining in the tax base. Under present law the tax is about 6 percent of the retail price including tax and under the bill will be between 10 percent and 11 percent of the retail price.

It is estimated that these two actions taken together will not have any effect on revenue collections, since it is believed that the additional revenue which will be derived from the higher rate of tax on the items remaining in the base will be approximately equal to the revenue lost with respect to the items which are excluded from the base.

9. Photographic apparatus and film

Section 3406 of the code imposes a 25-percent tax on sales at the manufacturers' level of photographic apparatus, which is defined as including cameras weighing 4 pounds or less, lenses, photographic apparatus and equipment and any apparatus or equipment designed especially for photographic purposes. A 15-percent manufacturers' tax is also imposed on photographic films (except X-ray films), photographic plates, and sensitized paper. Under present law the tax on film is about 9 percent, and tax on equipment is about 13 percent, of the retail price.

Section 485 of your committee's bill makes two changes in these taxes. A uniform 20-percent rate is substituted for the 25-percent tax on photographic apparatus and the 15-percent tax on film. This will result in a tax of between 11 percent and 12 percent of the retail price in the case of both film and equipment. Second, the bases of these taxes are revised so that the tax is imposed only on film, cameras and lenses which, insofar as is administratively possible, do not represent a cost of doing business.

Your committee excluded from the base of this tax the business cost items because it believes that a tax on business cost items is likely to be shifted forward as an operating expense and thus appear in the price of commodities generally. In addition, difficulty has arisen in the case of the tax on photographic equipment, because apparatus made by photographic manufacturers frequently has been held to be designed especially for photographic use, even when sold for nonphotographic purposes. Similar equipment sold by nonphotographic manufacturers has been held not to be subject to the photographic tax because it was not designed especially for photographic use. As a result manufacturers of photographic equipment have frequently been placed at a competitive disadvantage.

It is estimated that the combined effect of your committee's action with respect to these taxes is to reduce revenues in a full year of operation by \$23 million.

Photoflash bulbs are one of the items removed from the base of the tax on photographic equipment by the committee's action in excluding from this tax all apparatus except certain types and sizes of cameras and lenses. With respect to these bulbs the bill provides a floor stock refund. That is, wholesalers, retailers, and others having inventories of photoflash bulbs intended for sale, on the date the revision in the tax becomes effective, will be credited, or will receive a refund, with respect to the tax paid on their inventory of photoflash bulbs. The actual payment of the refund or the crediting will be handled through the manufacturer from whom the wholesaler or retailer purchased the photoflash bulbs. Your committee believes that a floor stock refund is necessary in the case of photoflash bulbs, but not in the case of other manufacturers' excise taxes which have been eliminated or reduced, because of a special problem existing in this case. A large portion of the manufacturers sell photoflash bulbs on a consignment basis. In such cases there has not been a sale by the manufacturer until the consumer buys the product and the manufacturers' tax is not levied until that time. Thus, they will have no tax-paid inventory at the time the removal of the tax on photoflash bulbs becomes effective. However, competing manufacturers not selling on a consignment basis, and their wholesalers and retailers, will have tax-paid inventories on which competition might force them to take losses equal to the amount of the tax reduction if no floor stock refund were provided. It is believed that floor stock refunds under this provision will be negligible. No loss from this floor stock refund will occur in subsequent years, since this is not a recurring item.

10. Electrical energy

Section 3411 of the code imposes upon vendors of electrical energy sold to domestic or commercial consumers a tax equal to $3\frac{1}{2}$ percent of the price charged. Section 487 of the bill repeals this tax.

A tax on electrical energy is not believed to be a desirable part of the excise tax revenue system for several reasons. First, the tax is believed to be one of the most burdensome of the excise taxes with respect to the lower-income groups, since amounts paid by consumers for electrical energy tend to vary relatively little with variations in income. Thus, the electrical energy tax paid by the higher income groups does not generally represent as large a percentage of their income as is true of the lower-income groups. Second, power companies have found it difficult and burdensome to determine which customers are domestic or commercial consumers, and therefore taxable, and which are industrial consumers, and therefore exempt. This has presented a particularly difficult problem in the case of businesses engaged in both commercial and industrial activities. Third, the tax under existing law does not apply to publicly owned electric and power plants or to systems owned and operated by cooperative or nonprofit corporations engaged in rural electrification. Thus, since there is general agreement that this tax is passed on to the consumers, the present tax treatment has the effect of imposing a tax on persons purchasing electrical energy from private utilities, while imposing no tax on persons purchasing electrical energy from municipalities, the

Federal Government, or REA cooperatives. To impose the tax on some consumers and not on others is believed discriminatory, and since your committee believed that it was not desirable to extend this tax to municipalities, the Federal Government, or REA cooperatives, the bill repeals this tax.

It is estimated that in a full year of operation the repeal of this 3½ percent electrical energy tax will reduce revenues by \$104 million annually.

11. *Fountain pens, ball-point pens, and mechanical pencils*

Section 486 of your committee's bill adds a new section 3408 to the Code imposing a 20-percent manufacturers' tax on fountain pens, ball-point pens, and mechanical pencils. At the present time some pens and pencils are subject to the 20-percent retail tax on jewelry and related items where they have nonessential parts which are ornamented with precious metals. To prevent double taxation these pens and pencils are not included in the base of the new manufacturers' tax.

Consideration was given to extending the tax on jewelry and related items to all fountain pens, ball-point pens, and mechanical pencils, but this was discarded because the inexpensive types of such items are frequently sold in stores which are not accustomed to the collection of the jewelry tax.

It is estimated that in a full year of operation this action by your committee will increase revenues by \$24 million annually.

D. RETAIL EXCISES

The revenue effect of the bill in a full year of operation with respect to retail taxes is as follows:

	[In millions]
Cigarette, cigar, and pipe lighters.....	\$2
Toilet preparations.....	—7
Total.....	—5

1. *Cigarette, cigar, and pipe lighters*

The 20 percent retail tax on jewelry imposed by sections 1650 and 2400 of the code includes some mechanical lighters in the category "articles made of, or ornamented, mounted or fitted with, precious metals or imitations thereof." This classification of taxable and nontaxable lighters has not proved to be satisfactory. Many of the more expensive types of lighters escape taxation under present law, while some of the relatively less expensive ones are subject to tax. For this reason section 431 of the bill extends the 20-percent retail tax on jewelry and related items to all mechanical lighters for cigarettes, cigars or pipes.

It is estimated that in a full year of operation this action by your committee will increase revenues by \$2 million a year.

2. *Toilet preparations*

Section 432 of your committee's bill makes two changes in the 20 percent retail tax on toilet preparations imposed by section 2402 of the code.

The first of these changes exempts from this tax baby oils, powders, lotions, and other toilet articles unless they are advertised or sold as

being usable by adults. Your committee believes that these items fall within the category of necessities and should not be subject to tax.

The second change exempts toilet preparations purchased by barber shops and beauty parlors for use in these establishments. Under present law these items are subject to tax at the time they are purchased by the barber shop or beauty parlor. However, toilet preparations purchased by a barber shop or beauty parlor for resale to customers are not taxable until sold to the ultimate user. To distinguish the purchases for resale made by the barber shop or beauty parlor from the purchases for their own use, the establishment is required to file a certificate if no tax is paid at the time of purchase indicating that the items will not be used in the establishment. Such certificates are not presently required in the case of tax-paid purchases for use in the establishment. This difference in treatment has resulted in considerable confusion among the barber shop and beauty parlor operators. Moreover, the taxing of the items used in the establishment itself represents the taxing of business cost items. The bill eliminates these problems by repealing the tax on toilet preparations purchased by barber shops, beauty parlors, and similar establishments if intended for use in such establishments.

It is estimated that in a full year of operation the exclusions from the base of the tax on toilet preparations made by this bill will reduce revenues by \$7 million annually.

E. TRANSPORTATION AND COMMUNICATION EXCISES

The revenue effect of your committee's action in a full year of operation on the transportation and communication excises is distributed among the various taxes as follows:

	[In millions]
Domestic telegraph, cable, and radio messages-----	— \$8
Transportation of persons-----	Negligible
Transportation of property-----	3
Total-----	— 5

1. Domestic telegraph, cable, and radio messages

Sections 1650 and 3465 of the code impose a 25 percent rate of tax on amounts paid for domestic telegraph, cable, or radio dispatches or messages. This is the same rate of tax imposed on charges for long-distance telephone service. Section 491 of the bill reduces the tax on domestic telegraph, cable, or radio messages to 20 percent, but retains the 25-percent rate in the case of long-distance telephone charges. This approximately restores the relationship which existed between these two taxes prior to the Revenue Act of 1943 when the tax on long-distance telephone charges was 20 percent and the tax on telegraph messages 15 percent. Since World War II telegraph service in the United States generally has been carried on at a deficit. So far this year the service has been operated at a profit but wage negotiations now under consideration may again place telegraph service in a deficit position. By reducing this tax on telegraph service your committee anticipates that it will be possible to decrease the amount paid for telegraph messages, and that as a result the volume of business done will be increased and the profit position of the industry

improved. Telegraph service not only is essential to the civilian economy but also is essential to national security.

In a full year of operation it is anticipated that reducing the tax on domestic telegraph, cable, and radio messages from 25 percent to 20 percent of the charge will reduce revenues by \$8 million. In the long run, however, it is believed that much of this loss may be offset by an increased volume of telegraph business.

2. Transportation of persons

Sections 1650 and 3469 of the code impose a 15-percent tax on amounts paid for the transportation of persons. Amounts paid for transportation in boats where the transportation takes place for the sole purpose of fishing from the boat have been held to be taxable under these sections. In the case of fishing-boat activities, it is customary for the operators of such boats to make a lump-sum charge for a fishing trip, including not only the charge for the transportation, but also charges for such services as the use of fishing tackle, a supply of bait, food served on the boat, etc. The necessity of breaking down this lump-sum charge to determine the proportion of the total which represents the taxable charge for transportation has been a difficult problem both for the fishing-boat operators and the Bureau of Internal Revenue. Moreover, although fishing trips are technically defined as transportation, they are not generally considered so by laymen. As a result the tax on fishing trips has brought numerous complaints from sportsmen and has also created troublesome collection and compliance problems for the Government. Section 492 of the bill exempts from the tax on the transportation of persons amounts paid for transportation by boat for the purpose of fishing from such boat.

It is believed that the revenue loss from this exclusion from the tax on the transportation of persons will be negligible.

3. Transportation of property

Section 3475 of the code imposes a 3-percent tax on amounts paid for transportation of property (in the case of coal the tax rate is 4 cents per short ton). However, this tax only applies to amounts paid to a person engaged in the business of transporting property for hire. It does not apply, for example, to a producer transporting his own property. In the case of oil it has been found that some producers transport their own oil by water while others hire independent shippers. This has created competitive discrimination since the latter are subject to the transportation tax, while the former are not. This discrimination has been recognized in the case of the transportation of oil by pipeline, since section 3460 of the code imposes the tax on either the amount paid for the transportation of oil by pipeline, or on the "fair charge" for such transportation if no charge is made. Section 493 of your committee's bill applies this same principle with respect to oil transported by water by imposing in section 3476 of the code the 3-percent tax on the transportation of property to the "fair charge" where the shippers are transporting their own oil, and in other cases where the amount paid for the transportation of oil is less than a "fair charge." In establishing the "fair charge" for this transportation the Treasury Department, insofar as possible, is to look to amounts charged in similar cases where the transportation is offered for hire. If no similar cases are available then a reasonable charge will be constructed.

It is estimated that this extension of the tax on the transportation of property will increase revenues by \$3 billion annually when the provision is fully effective.

F. EXCISES ON AMUSEMENTS OR RECREATION

It is estimated that the changes made in the excises on amusements and recreation will result in a net loss in revenue in a full year of operation as follows:

General admissions.....	[In millions] — \$22
Cabaret.....	Negligible
Occupational tax on bowling alleys and billiard and pool tables.....	1
Total.....	—21

1. General admissions

Sections 1650 and 1700 of the code impose a tax of 1 cent for each 5 cents or major fraction thereof charged for admission. This bill makes two changes in the application of this tax.

Section 402 of this bill exempts from this tax admissions where all the proceeds inure to religious, educational, and charitable institutions; community-supported symphony orchestras; nonprofit cooperative or community-center motion-picture theaters; National Guard organizations; Reserve officers' organizations; and veterans' organizations; and police or fire departments, and funds set up for the benefit of their members and their dependents. As was provided by regulation prior to the Revenue Act of 1941, your committee intends that the term "educational organizations" be construed to include opera companies where such organizations are not run for the purpose of making a profit. However, the bill does not exempt admissions to wrestling and boxing matches, carnivals, rodeos or circuses where professionals participate for compensation; or admissions to athletic contests unless the proceeds inure exclusively to the benefit of elementary or secondary schools. The bill also exempts admissions to nonprofit agricultural fairs, to concerts conducted by nonprofit civic associations and to swimming pools and other places providing facilities for physical exercise operated by a governmental unit.

The exemptions as described above represent a restoration of the exemptions in the admissions tax prior to the Revenue Act of 1941. However, the exemptions are made somewhat more restrictive than the exemptions in the law prior to the Revenue Act of 1941 in order to remove administrative problems which were experienced under the old law, and also in an attempt to limit the benefit of the exemption to activities which it appears appropriate for the Government to encourage. Most of the activities to which these exemptions are applicable are a part of the legitimate functions of organizations or institutions which frequently are Government-supported or have been accorded tax exemption on their own income. Because it appears inconsistent to tax admissions to activities which are directly related to the legitimate functions of these organizations or institutions, your committee reinstates these exemptions, limited as provided above. It is estimated that these exemptions will result in a revenue loss of approximately \$16 million in a full year of operation.

The second change in the admissions tax, made by section 401 of this bill, deals with the amount paid for admission. Under present law a

person admitted free or at reduced rates is required to pay the same amount of tax as a person who is charged the regular admission price, unless he is an employee, a municipal officer on official business, a child under 12, or (if admission is free) a hospitalized serviceman or veteran. Your committee believes that requiring a person to pay a tax based on a larger admission price than the amount actually charged him is contrary to the general principal of an ad valorem tax. Moreover, it does not appear that the administration of the tax is facilitated by taxing free admissions at the established price, and it represents a source of irritation to the public. Section 401 of your committee's bill exempts free admissions from tax and bases the tax on amounts actually paid where persons are admitted at reduced rates.

It is estimated that the revenue loss from this change in the base on which the admissions tax is paid will amount to \$6 million in a full year of operation.

2. *Cabarets*

Section 404 of your committee's bill relates to the application of the 20-percent tax on cabarets to ballrooms and dancing halls. Some courts have construed the cabaret tax to apply in the case of ballrooms and dancing halls merely because it was possible to purchase incidental refreshments, services or merchandise in such places. The bill amends section 1700 (e) of the code to provide that the cabaret tax shall not apply in such cases. It is estimated that the revenue effect of this provision will be negligible.

3. *Bowling alleys and billiard and pool tables*

Section 3268 of the Internal Revenue Code imposes a special occupational tax on bowling alleys, billiard or pool tables of \$20 per year per alley or table. Section 464 of this bill raises this tax from \$20 to \$25.

It is estimated that in a full year of operation this change will increase revenues by \$1 million annually.

G. EXCISES ON GAMBLING

The additional revenue it is estimated will be derived from the taxes on gambling in a full year of operation is distributed among the various excises as follows:

	[In millions]
Occupational tax on coin-operated gaming devices.....	\$7
Tax on wagers.....	} 400
Occupational tax on the business of accepting wagers.....	
Total.....	407

With respect to the estimate of \$400 million from the two wagering taxes, since this is a field of taxation with which the Federal Government has had no previous experience and because there is uncertainty as to the actual amount of the tax base, the committee recognizes that it is difficult to estimate too closely the actual revenue which these new taxes will yield.

Section 471 of the bill adds a new chapter 27A to the code which imposes a 10-percent excise tax upon wagers of certain types, principally those placed with bookmakers and lottery operators, and a \$50 per year occupational tax both upon persons engaged in accepting

such wagers and upon persons who receive wagers for the persons so engaged.

Commercialized gambling holds the unique position of being a multi-billion-dollar, Nation-wide business that has remained comparatively free from taxation by either State or Federal Governments. This relative immunity from taxation has persisted in spite of the fact that wagering has many characteristics which make it particularly suitable as a subject for taxation. Your committee is convinced that the continuance of this immunity is inconsistent with the present need for increased revenue, especially at a time when many consumer items of a seminecessity nature are being called upon to bear new or additional tax burdens.

The committee recognizes that, while Federal law imposes no general prohibition upon gambling, various forms of wagering are illegal under the laws of most States. As a result, proposals for a Federal tax on wagering are sometimes criticized as in effect sanctioning the carrying on of gambling activities in violation of such laws. The committee does not share this view. Since its inception, the Federal income tax has applied without distinction to income from illegal as well as legal sources, and it has never been generally supposed that such application carried with it any implied authorization to carry on illegal activities. Moreover, in the field of excise taxes the tax on coin-operated gambling devices has been applied without regard to whether or not the operation of a particular machine is in violation of State or local law. The present bill conforms to this pattern and imposes tax without regard to the legality or illegality of the particular wager.

The bill specifically provides that payment of either the tax on wagers or the occupational tax shall not serve to exempt any person from any penalties provided under either State or Federal law with respect to engaging in the taxed activities.

1. Tax on wagers

The wagering tax which the bill imposes is placed upon wagers, without regard to the outcome of individual bets. This method of taxation is comparable to State taxation of pari-mutuel pools and is particularly appropriate with respect to wagering with bookmakers and in lotteries, especially of the type commonly known as the numbers game. The tax is limited (1) to wagers on sports events or contests placed with a person engaged in the business of accepting such wagers, (2) to wagers placed in a wagering pool which involves a sports event or contest, if the pool is conducted for profit, and (3) to wagers placed in a lottery conducted for profit. It is believed that wagering transactions of these types make up by far the largest proportion of the total gambling business.

While betting on horse races probably represents the largest single category of gambling activity, other than in lotteries, the tax will extend to wagers on any other sport, such as prizefights, basketball, baseball, or football, including sports exhibitions and trials. Moreover, the event wagered upon need not be a sports activity but can be any type of contest, such as an election or the outcome of primaries and nominating conventions.

Wagers on sports events or contests, to be taxable, must be placed with a person engaged in the business of accepting such wagers. The

purpose of this requirement is to exclude from tax the purely "social" or "friendly" type of bet. A person is considered to be in the business of accepting wagers if he is engaged as a principal who, in accepting wagers, does so on his own account. The principals in such transactions are commonly referred to as "bookmakers," although it is not intended that any technical definition of "bookmaker," such as the maintenance of a handbook or other device for the recording of wagers, be required. It is intended that a wager be considered as "placed" with a principal when it has been placed with another person acting for him. Persons who receive bets for principals are sometimes known as "bookmakers' agents" or as "runners." It is not intended that to be "engaged in the business of accepting such wagers" a person must be either so engaged to the exclusion of all other activities or even primarily so engaged. Thus, for example, an individual may be primarily engaged as a salesman, and also, for the purposes of this tax, be engaged in the business of accepting wagers.

As previously stated, wagers placed in a wagering pool with respect to a sports event or a contest are taxable if the pool is conducted for profit. The requirement that the pool be operated for profit is designed to eliminate from the tax base those pools which are occasionally organized among friends or other associates, all of the contributions being distributed to the winner or winners. A pool would be considered as being operated for profit, if, for example, a person appropriated to himself a percentage of the amount contributed to the pool or required a fee for the privilege of contributing to the pool.

As in the case of bookmaking transactions, a wager will be considered as "placed" in a pool or in a lottery whether placed directly with the person who conducts the pool or lottery or with another person acting for such a person.

A contribution to a lottery will be considered a taxable wager only if the lottery is conducted for profit, as is the case with respect to wagering pools. Although the bill does not contain an all-inclusive definition of the term "lottery," in general the term is intended to mean any scheme for the distribution of property by chance among persons who have paid or have agreed to pay a valuable consideration for the chance, whether called a lottery, raffle, gift enterprise, or some other name. The bill specifically provides that the term includes "policy" or the so-called numbers game and similar types of wagering. Policy, or its various derivatives, is usually a scheme wherein a player selects a number, several numbers, or a series of numbers and pays or agrees to pay a certain amount in consideration of which the person to whom the money is paid engages to pay a prize if the number or numbers selected by the player appear or are published in combinations which constitute a winning combination. (Conceivably the use of letters or other symbols could be substituted for numbers, but this would not alter the fundamental nature of the game as a lottery.) The winning numbers in policy are usually based upon some regularly published series of numbers such as weekly sales reports of a stock exchange or commodity exchange, United States Treasury balance reports, or the winning horses of a series of previously numbered horse races. The above description is not intended to be restrictive as your committee is well aware of the possibility that existing methods of play may be changed in an effort to escape the tax which the bill imposes.

Because the term "lottery" is intended to be broadly construed in order to limit the opportunities for avoidance, your committee has specifically excluded from the term certain types of gambling games which might otherwise come within its technical meaning although perhaps not commonly so considered. Thus, the bill excludes from the term "lottery" any game of a type in which the wagers are usually placed, the winner or winners are usually determined, and the distribution of prizes or other property is usually made, in the presence of all persons placing wagers in the game. Among those games which are within the scope of the exclusion would be card games such as draw poker, stud poker, and blackjack, roulette games, dice games such as craps, bingo games, and the gambling wheels frequently encountered at country fairs and charity bazaars. On the other hand, punchboards would not normally be excluded under this definition.

Your committee has not excluded the above types of gambling because of any belief that they are not suitable subjects for taxation. However, the method of taxation which the bill proposes, while particularly appropriate to bookmaking and to policy operation, does not appear readily adaptable to these other forms of gambling. For example, there are obvious practical difficulties in ascertaining the gross amount of wagers made in the course of a dice game and other games in which there is direct and continuous player participation. Moreover, with respect to card games it is frequently difficult to ascertain who, if anybody, is the person operating the game and what his tax liability should be. In some cases, a person may operate the bank directly. In other cases, he may take a percentage of, or impose a flat charge on, each pot or may simply levy a charge for the use of facilities such as a room. Moreover, many of these types of games are frequently engaged in on a friendly or social basis rather than professionally. A differentiation for tax purposes between friendly and professional games would create serious statutory and administrative problems. It is not expected that this problem will exist to any serious extent in the areas within which the bill does impose tax. For example, nonprofessional betting on horse races is probably insignificant in amount. Furthermore, while wagering games of the type excluded from the tax may represent important aspects of commercialized gambling in certain localities, they constitute a relatively small proportion of the total wagering transactions in the United States. Moreover, only a portion of such professional games are in fact carried on in gambling casinos or other permanent establishments which might conceivably be identifiable for tax purposes. It appears that a substantial and perhaps predominant part of such activities are in the nature of "floating" games. That is, the operators of a game will establish themselves in a locality, often in a hotel room, for a period of time as short as 1 or 2 days, and then move on to another locality. The transiency of such activities is not characteristic of the wagering operations upon which the bill does impose tax. Bookmakers and policy operators both depend upon an established clientele, which requires a certain permanency of location. In any event, your committee believes that the tax it proposes will cover at least 90 percent of total commercial wagering.

The bill provides specifically that the tax shall not apply with respect to wagers placed in pari-mutuel wagering enterprises licensed under State law. Such wagering is presently subject to substantial State and, in some instances, local taxation, and to superimpose a Federal tax upon these transactions would only serve to maintain the existing advantage which bookmakers enjoy over pari-mutuel betting by reason of their immunity from pari-mutuel taxes.

Also excluded from the tax are wagers placed in coin-operated devices with respect to which an occupational tax is imposed by section 3267 of the code. Your committee believes that, for administrative reasons, the method of taxation which is presently applied with respect to such machines is preferable to an extension of the wagering tax into this area.

The bill provides that, for the purposes of the tax, the term "lottery" does not include any drawing conducted by organizations exempt from tax under section 101 of the code where no part of the net proceeds derived from such drawing inures to the benefit of any private shareholder or individual. It is, of course, contemplated that the regulations will require the expenses of such a drawing, such as salaries paid to the actual operators, to be reasonable in amount if the exemption is to be allowed. Furthermore, any agreement to pay as compensation a percentage of the amounts contributed would be a clear indication that the drawing is not within the exempt category.

Liability for the wagering tax is placed upon the person who is engaged in the business of accepting wagers or who conducts the pool or lottery. Thus, the tax is to be collected from the bookmaker proper or from the person who conducts the pool or lottery as the principal. Monthly returns of tax are required.

A credit is provided in the case of so-called lay-off money. Bookmakers and policy operators generally attempt to balance one bet against another. A perfect mathematical booking of any race would insure a profit regardless of the ultimate outcome. However, horse-race bookmakers today seldom set their own odds but pay off winning bets upon the basis of the actual pari-mutuel pay-off at the track concerned. Furthermore, policy operators normally pay off on the basis of fixed odds, such as 700 to 1, which remain constant from day to day, although lower odds may be maintained with respect to certain heavily played numbers. Because they are unable to vary the odds in accordance with amounts wagered, bookmakers and policy operators sometimes find that they have accepted a greater amount of wagers upon a certain horse or number than they are willing to carry on their own account. In order to avoid the risk inherent in accepting such disproportionate amounts of wagers, the bookmaker or policy operator "lays off" a portion of his bets with another bookmaker or policy operator. In such cases it is the person with whom the bet is laid off who bears the actual risk of the wager even though it is the person with whom the bet was originally placed that the bettor looks to for his winnings or to whom he pays his losses. The bill provides with respect to such laid-off wagers that the bookmaker or policy operator who originally accepts the wager shall be liable for the 10-percent tax upon it but may claim a credit or refund for the amount of the tax if the bet is laid off with another person who also is liable to the wagering tax. Thus, if a bookmaker accepts a \$100 wager and lays off \$60 of the wager with another bookmaker,

he is taxable upon the \$100 wager but may claim a credit or refund of tax with respect to the \$60 laid off. In this manner, multiple taxation of the same wager is avoided. While certain "tracing" difficulties may be anticipated as a result of this provision, it is believed that the credit procedure will facilitate tax enforcement by making available to the collection agencies information of large bookmaking operations which might not otherwise be readily obtainable. It is contemplated that the regulations will require the maintenance of records which will insure that the person with whom the wager is laid off is identifiable as a person also subject to the wagering tax.

The credit will be allowable only with respect to amounts laid off with persons also liable to the tax on wagers. As a result of this limitation, no credit will be allowable with respect to amounts known in betting parlance as "come-back" money. Come-back money is essentially a wager which a bookmaker lays off at a track rather than with another bookmaker, and, as previously noted, wagers placed in State-licensed pari-mutuel enterprises will not be taxable. Come-back money serves the same purpose as a lay-off proper (that is, it provides the bookmaker with a "hedge") and, if made in large amounts, may have the additional effect of depressing the odds on the particular horse or horses wagered upon. The tax consequences of a combined lay-off and come-back transaction are illustrated by the following example: a bettor places a \$1,000 wager with bookmaker A on horse X; A holds \$100 of the wager and lays off \$900 with bookmaker B; B holds \$200 of the \$900 and bets the remaining \$700 at the track on the horse X. Bookmaker A is taxable with respect to the entire \$1,000 wager but is allowed a credit with respect to the tax on the \$900 laid off; B is taxable on the entire \$900 and is allowed no credit for the \$700 he bets at the track. Thus, cumulative tax liabilities arise of \$190 (10 percent of \$1,900, the aggregate amount of wagers and lay-offs) but a credit is allowable in the amount of \$90 (10 percent of \$900, the amount laid off), leaving a net tax of \$100, or 10 percent of the original \$1,000 wager.

A wager is intended, of course, to be the amount risked by the person placing the bet rather than the amount which he stands to win. Thus, if a person bets \$5 against a bookmaker's \$7 with respect to the outcome of a prize fight, the wager, for the purpose of the tax, is \$5.

The bill provides that the amount subject to tax will include not only the wager proper but also any charge incident to the placing of the wager. An example of such an additional charge which is to be included in the taxable amount would be so-called "insurance" money paid bookmakers. Horse-race bookmakers normally place an arbitrary ceiling on the odds upon which they are willing to base their pay-offs, such as, for example, 20 to 1 for win bets, 8 to 1 for place bets, and 4 to 1 for show bets. These ceilings are maintained irrespective of the actual pari-mutuel odds. Bookmakers are frequently willing to guarantee the bettor a pay-off based on the actual track odds, no matter how great, in consideration of a small additional charge paid by the bettor, usually 10 percent of the bet. This additional charge is known as insurance. Another example of an amount which would be included as part of a taxable wager would be a charge made by a lottery operator for the privilege of contributing to the pool or bank. On the other hand, the bill specifically provides that the taxable amount shall not include an amount equal to the tax if it

has been collected as a separate charge from the bettor. This exclusion conforms to the pattern of the other excises and will avoid the difficult administrative problems involved in collecting a tax on a tax.

The bill contains provisions designed to prevent avoidance of the tax through transfer of wagering activities to points outside of the United States.

Any person who willfully fails to pay the tax provided by the bill or to make a return or to keep required records (including a daily record of the gross amount of wagers received) is made liable to criminal penalties (in addition to the civil penalties) of up to 1 year's imprisonment and a fine up to \$10,000. Furthermore, a willful attempt to evade or defeat the tax will be a felony punishable by up to 5 years' imprisonment and up to \$10,000 fine.

2. Occupational tax

In addition to the tax on wagers described above, the bill imposes an occupational tax of \$50 per year upon any person liable to the tax on wagers and upon any person engaged in receiving wagers for or on behalf of such a person.

The committee conceives of the occupational tax as an integral part of any plan for the taxation of wagers and as essential to the collection and enforcement of such a tax. Enforcement of a tax on wagers frequently will necessitate the tracing of transactions through complex business relationships, thus requiring the identification of the various steps involved. For this reason, the bill provides that a person who pays the occupational tax must, as part of his registration, identify those persons who are engaged in receiving wagers for or on his behalf, and, in addition, identify the persons on whose behalf he is engaged in receiving wagers.

In general, the provisions of the occupational tax follow the pattern of the other occupational taxes imposed under the code and require registration, posting of special tax stamp by the taxpayers, the maintenance by the collector of a list of taxpayers for public inspection, etc.

Special penalties are imposed for failure to pay the tax or to post or exhibit the stamp. Furthermore, the penalties already described with respect to the tax on wagers will also apply to willful failures to pay the occupational tax. It should also be pointed out that, under the general provisions of section 1001 of Title 18 of the United States Code, any false or fictitious statement made knowingly with respect to the payment of the occupational tax, such as the giving of a false name or address, is subject to a fine of not more than \$10,000 or imprisonment of not more than 5 years, or both.

3. Coin-operated gaming devices

Section 3267 (a) of the code provides an occupational tax of \$150 per year in the case of coin-operated gaming devices. Section 463 of the bill raises this to \$250 per year. It is believed that the imposition of a tax on wagering generally, from which coin-operated gaming devices are specifically exempted, requires an increase in this tax to provide equality of treatment. It is estimated that in a full year of operation this will increase revenues by \$7 million annually.

H. FLOOR STOCK TAXES

A floor stock tax is a tax imposed one time only on inventories of items on which an excise has been paid but which items are already

beyond the stage where the tax is ordinarily imposed at the time the increased or new tax becomes effective. Floor stock taxes are used only in the case of taxes imposed at the manufacturers' level, since only in these cases are there any inventories of items held by persons other than consumers which have not been subjected to any increased excise tax imposed. Floor stock taxes have traditionally been imposed in the case of alcoholic beverages and tobacco. Twenty-three floor stock taxes relating to alcoholic beverages have been imposed since 1913 and nine floor stock taxes have been imposed on tobacco since that date. In the case of other manufacturers' excises, floor stock taxes have been used relatively infrequently.

Floor stock taxes have been imposed for three primary reasons: (1) To prevent wholesalers and retailers from avoiding a tax increase by stocking up on items before a tax increase or new tax becomes effective, (2) to make the increase or new tax effective on items produced at an earlier date and thus increase revenues in the initial year of imposition, and (3) to prevent competitive discrimination in cases where some wholesalers and retailers have large stocks of items where the new or additional tax has not been imposed and others do not. However, in imposing floor stock taxes it is also necessary to consider the large amount of work which these taxes entail both for the taxpayer and the Government. The processing of floor stock tax returns is an extensive task and the application of floor stock taxes at both the wholesale and the retail levels affects hundreds of thousands of dealers. Because of these administrative considerations your committee's bill limits floor stock taxes to those cases where there appears to be a strong need for such taxes.

Under the bill floor stock taxes are imposed with respect to the increases in the tax on distilled spirits, beer, wine, and cigarettes. In the case of gasoline a floor stock tax is also imposed but only with respect to stocks of gasoline held by retailers other than at their retail establishments. The rates of tax under these floor stock taxes are the same as the increases in tax provided for these items. It is anticipated that in the fiscal year 1952 these floor stock taxes will increase collections in that year, but only that year, by \$120 million. Of this total, \$98 million is accounted for by the floor stock taxes on alcoholic beverages, and the bulk of this is expected to be collected from distilled spirits since inventories are largest in this case. About \$22 million is expected to be collected from the floor stock tax on cigarettes, but only a nominal amount from the floor stock tax on gasoline. In the latter case the floor stock tax is imposed, not with the expectation of receiving large revenues from it, but to give assurance that substantial revenues will not be lost by an unusually large transfer of title to gasoline prior to the effective date of the tax increase.

Consideration was also given to the imposition of floor stock taxes in the case of other manufacturers' excises. However, no action was taken with respect to them largely because the items are likely to be in relative short supply when the excise taxes become effective, making it difficult for dealers to avoid tax by increasing their inventories prior to the effective date of the tax increase. Also, the large number of retailers and items involved in many cases make the imposition of the tax impractical in view of the size of the rate increases or the rates of the new taxes.

TABLE 12.—*Summary of effect of your committee's bill on revenues in a full year of operation*

I. STRUCTURAL CHANGES		Estimated increase in revenues in a full year of operation (in millions)
1. Withholding on dividends, certain interest and royalties-----		\$323
2. Closing of loopholes concerned with—		
(a) Dealers in securities-----	}	60
(b) Corporate split-ups to obtain multiple exemptions and credits-----		
(c) Reduction of tax from the sale of inventory items through the use of collapsible corporations-----		
(d) Sale of property to controlled corporations-----		
(e) Under the estate and gift taxes, United States bonds held by a nonresident alien not engaged in business in the United States-----		
3. Providing for the offset of net short-term or net long-term capital losses against net long-term or net short-term capital gains before reducing the long-term capital gains or losses by 50 percent----		28
4. Extending of the depletion items to provide—		
(a) Depletion at a 15-percent rate for borax, fuller's earth, refractory and fire clay, quartzite, perlite, diatomaceous earth, metallurgical and chemical grade limestone and tripoli-----	}	-67
(b) Depletion for coal at 10 percent instead of 5 percent----		
(c) Depletion at 5 percent for sand, gravel, marble, granite, stone, brick and tile clay, shale, shell, pumice, scoria, slate, and asbestos-----		
(d) Depletion for thenardite at 15 percent irrespective of whether it is obtained from brines or mixtures of brine-----		
5. Postponing of the realization of capital gain where a personal residence is sold and another purchased within 1 year-----		-112
6. Permitting the development costs of mining to be deducted over the period during which the mineral benefited is sold-----		-20
7. Providing capital gains tax, instead of ordinary income tax, treatment for coal royalties-----		-10
8. Providing sec. 117 (j) treatment for livestock held by the taxpayer for draft, breeding or dairy purposes for 12 months or more----		-15
9. Providing special tax treatment for family partnerships-----		—
10. Permitting venture capital companies to qualify as regulated investment companies-----		—
11. Exempting educational "feeder" corporations with respect to years prior to 1951-----	(1)	
1 No permanent loss.		
12. Permitting additional withholding on wages and salaries by agreement of employees and employers-----		None
Total, net revenue effect of structural changes-----		187
II. INDIVIDUAL INCOME TAX CHANGES		
1. Increasing the individual income tax by 12½ percent but limiting the top marginal rate to 94½ percent and raising the over-all effective rate ceiling from 87 to 90 percent-----		2,854
2. Providing 50 percent of the benefit of income splitting for "heads of households"-----		-56
3. Increasing the alternative capital gains rate for individuals by 12½ percent-----		49
4. Total, net revenue effect of individual income tax changes--		2,847

1 No permanent loss.

TABLE 12.—*Summary of effect of your committee's bill on revenues in a full year of operation—Continued*

III. CORPORATE INCOME AND EXCESS PROFITS TAX CHANGES

*Estimated
increase in
revenues in a
full year of
operation
(in millions)*

1. Increasing the corporate normal tax rate by 5 percentage points (increasing the total rate from 47 to 52 percent) and raising the ceiling rate from 62 to 67 percent.....	\$2, 085
2. Decreasing the average earnings credit under the excess profits tax from 85 to 75 percent of average base period earnings and further raising the ceiling rate to 70 percent.....	73 2
3. Increasing the tax on net capital gains of corporations by 12½ percent.....	38
Total, net revenue effect of corporate income and excess profits tax changes.....	<u>2, 855</u>

IV. TAX TREATMENT OF LIFE-INSURANCE COMPANIES

1. Extending for 1 year (1951) the temporary tax treatment provided for life-insurance companies in the Revenue Act of 1950 (revenue is shown for increase over pre-1950 formula).....	<u>58</u>
--	-----------

V. EXCISE TAX CHANGES

(A) ALCOHOLIC BEVERAGES

1. Increasing the tax on distilled spirits from \$9 to \$10.50 a gallon and increasing the draw-backs for alcohol used for nonbeverage purposes from \$6 to \$9.50 (decreasing the net tax from \$3 to \$1).....	168
2. Increasing the tax on beer from \$8 to \$9 a barrel.....	68
3. Increasing the tax per gallon on still wines as follows—	8
(a) With alcoholic content not over 14 percent the tax is increased from 15 to 17 cents.....	
(b) With alcoholic content over 14 percent but not over 21 percent the tax is increased from 60 to 67 cents, and	
(c) With alcoholic content over 21 percent but not over 24 percent the tax is increased from \$2 to \$2.25.....	
4. Increasing the tax per half pint on sparkling wines, etc., as follows—	8
(a) For sparkling wines and champagne the tax is increased from 15 to 17 cents, and	
(b) For artificially carbonated wines, liqueurs, cordials, etc., the tax is increased from 10 to 12 cents.....	
5. Increasing the annual fee for occupational licenses for retail liquor dealers from \$27.50 to \$50, and requiring the applicants to give correct names and addresses. Also, increasing the occupational tax on wholesalers in liquor from \$110 to \$200 and the occupational tax on wholesalers in malt liquor from \$55 to \$100.....	8
Total, net revenue effect of alcoholic beverage excise tax changes.....	<u>252</u>

(B) TOBACCO TAXES

1. Increasing the tax on all small cigarettes from 7 to 8 cents a pack.....	<u>177</u>
---	------------

TABLE 12.—*Summary of effect of your committee's bill on revenues in a full year of operation—Continued*

(C) MANUFACTURERS' TAXES

	<i>Estimated increase in revenues in a full year of operation (in millions)</i>
1. Increasing the tax on gasoline from 1½ cents to 2 cents and applying a similar tax to diesel fuel used on the highways.....	\$220
2. Increasing the tax on passenger cars and motorcycles from 7 to 10 percent, but retaining the present 7-percent tax on house trailers..	196
3. Increasing the tax on automobile trucks, busses, and truck trailers from 5 to 8 percent.....	61
4. Increasing the tax on automotive parts and accessories from 5 to 8 percent.....	56
5. Excluding from the base of the tax on automotive parts and accessories the fair market value of "trade-ins" in computing the base for the tax on reconditioned or rebuilt parts.....	—
6. Excluding from the tax on automotive parts and accessories certain parts used in the case of farm machinery.....	—
7. Excluding from the 5 cents per pound tax on tires, tires of less than 20 inches in diameter and tires with internal wire fasteners....	—1
8. Extending the 10-percent tax on electric, gas, and oil appliances to include the following "home-type" appliances: electric mangles, electric dishwashers, electric and gas clothes driers, electric floor polishers and waxers, electric razors, electric and power-driven lawn mowers, electric hedge clippers, electric belt-driven fans, electric dehumidifiers, electric door-bell chimes, electric food choppers or meat grinders, electric ice-cream freezers, electric motion-picture and slide projectors, electric pants pressers, and electric sheets and spreads.....	19
9. Excluding electric heating pads from the 10-percent tax on electric, gas, and oil appliances.....	—1
10. Excluding from the base of the 10-percent tax on radio receiving sets, communication, detection or navigation receivers of the type used in commercial, military, or marine installations if sold to the United States Government.....	None
11. Revising the base of the tax on sporting goods to exclude items predominantly used by children or in schools and increasing the rate from 10 to 15 percent.....	(2)
12. Reducing the tax on cameras and photographic apparatus from 25 to 20 percent, increasing the tax on film from 15 to 20 percent, and exempting business cost items.....	—23
13. Repealing the 3½-percent tax on sales by private utilities of electrical energy.....	—104
14. Imposing a 20-percent manufacturers' tax on fountain pens, ball-point pens, and mechanical pencils.....	24
Total, net revenue effect of manufacturers' excise tax changes..	447

(D) RETAIL TAXES

1. Extending the 20-percent tax on jewelry to include all cigarette, cigar, and pipe mechanical lighters.....	2
2. Excluding from the 20-percent tax on toilet preparations, baby oils, powders and lotions and toilet preparations purchased by barber-shops and beauty parlors for use in their shops.....	—7
Total, net revenue effect of retail excise tax changes.....	—5

² This will result in a gain of less than \$500,000.

TABLE 12.—*Summary of effect of your committee's bill on revenues in a full year of operation—Continued*

(E) GAMBLING TAXES

	<i>Estimated increase in revenues in a full year of operation (in millions)</i>
1. Imposing a 10-percent tax on most wagering other than wagering through pari-mutuels.....	\$400
2. Imposing a \$50 annual tax on the occupation of accepting wagers (excluding pari-mutuels).....	
3. Increasing the annual occupational tax on coin-operated gaming devices from \$150 to \$250.....	
	7
Total, net revenue effect of gambling taxes.....	407

² This will result in a gain of less than \$500,000.

(F) OTHER EXCISES

1. Extending the 3-percent tax on amounts paid for transportation of property to include the transportation of oil by water where shippers are transporting their own oil or where less than a fair charge is made.....	3
2. Excluding from the 15-percent tax on amounts paid for transportation of persons, amounts paid for transportation by boat where paid for fishing from such boat.....	
3. Increasing the annual tax on bowling alleys and billiard and pool tables from \$20 to \$25 per table or alley.....	1
4. Decreasing the tax on domestic telegraph, cable, and radio messages from 25 to 20 percent of the charge.....	-8
5. Excluding from the base of the 20-percent tax on cabarets, refreshments, etc., served at ballrooms and dance halls where these are of an incidental character.....	—
6. Exempting from the 20-percent admissions tax—	
(a) Proceeds inuring to nonprofit religious, educational (including opera companies), and charitable institutions; community-supported symphony orchestras; nonprofit cooperative or community-center motion-picture theaters; national guard organizations, Reserve officers' organizations and veterans' organizations; and police and fire departments and funds set up for the use of their members and their dependents. However, these exemptions do not include admissions to wrestling and boxing matches; to carnivals, rodeos or circuses where professionals participate for compensation; or to athletic contests unless the proceeds inure exclusively to the benefit of elementary or secondary schools.....	-16
(b) Admissions to nonprofit agricultural fairs and nonprofit civic associations.....	
(c) Admissions to swimming pools and other places providing facilities for physical exercise if operated by a governmental unit.....	
7. Applying the 20-percent admissions tax to the actual amount paid instead of to the established price.....	-6
Total, net revenue effect of other existing excise tax changes.....	-26
Total, net revenue effect of excise tax changes to date.....	1, 252
Grand total, net revenue effect of changes provided by the committee to date.....	7, 199

DETAILED DISCUSSION OF THE TECHNICAL PROVISIONS OF THE BILL

TITLE I—INCREASE IN INCOME TAX RATES

PART I—INDIVIDUAL INCOME TAXES

SECTION 101. DEFENSE TAX

Subsection (a) of section 101 of the bill adds to the Internal Revenue Code a new section 16 which provides for a percentage increase (designated a "defense tax") in the amount of the combined normal tax and surtax which would otherwise be payable by an individual or other noncorporate taxpayer under the provisions of sections 11 and 12 or of section 421 (a) (2) of the code. The new section 16 effects also an increase in the amount of the alternative tax computed under the provisions of section 117 (c) of the code by any taxpayer (including a corporation) with a net long-term capital gain in excess of the net short-term capital loss for the taxable year. The defense tax increases will, in general, apply only to taxable years which end after August 31, 1951. An exception to this is the case covered by section 103 of the bill of a joint return of husband and wife with different taxable years because of the death of either during the taxable year when the taxable year of the surviving spouse filing the joint return began before September 1, 1951, and ended after August 31, 1951.

Subsection (a) of the new section 16 applies to the taxable calendar year 1951, and provides for an increase of 4 percent in the amount of the combined normal tax and surtax computed under sections 11 and 12, or 421 (a) (2) of the code, but without regard to the provisions of section 16. Section 108 (h) of the code (as added by sec. 131 of the bill) provides rules for prorating the increase in tax for other taxable years beginning before September 1, 1951, and ending after August 31, 1951.

In applying the provisions of subsection (a) of section 16, the amount of the combined normal tax and surtax is first determined under the provisions of sections 11 and 12, or 421 (a) (2), applicable to taxable years beginning after September 30, 1950, and the tax is then determined by increasing such amount by 4 percent. The amount of the combined normal and surtax, it should be noted, is increased by the amount of the defense tax before the application of the credits against tax provided by sections 31, 32, and 35 of the code, in accordance with the provisions of section 12 (e) of the code.

Subsection (b) of the new section 16 is applicable to taxable years beginning after August 31, 1951. Its provisions are otherwise identical to those of subsection (a) of such section except that the percentage increase provided is 12½ percent.

Subsection (c) of new section 16 provides for an increase in the amount to be added to the partial tax when an individual, or a cor-

poration, with net long-term capital gain in excess of net short-term capital loss computes an alternative tax under paragraph (1) or (2) of section 117 (c) of the code. In the case of the calendar year 1951, paragraph (1) of subsection (c) provides that the increase in such amount shall be 4 percent. Paragraph (2) of subsection (c) applies to taxable years beginning after August 31, 1951, and provides that the amount to be added to the partial tax shall be increased by 12½ percent. Paragraph (3) of subsection (c) is applicable to taxable years beginning before September 1, 1951, and ending after August 31, 1951 (other than the calendar year 1951), and provides that the amount to be added to the partial tax shall be increased by a percentage which bears the same ratio to 12½ percent as the number of months in such taxable year after August 31, 1951, bears to the total number of months in such taxable year. Assume, for the purpose of illustrating the application of paragraph (3), that an alternative tax is being computed for a taxable year beginning June 1, 1951, and ending May 31, 1952, and that the amount to be added to the partial tax (determined under sec. 117 (c) (1) or sec. 117 (c) (2)) is \$10,000. The amount to be added to the partial tax would be \$10,000 plus \$937.50 (ninetwelfths of 12½ percent of \$10,000), or \$10,937.50. For the purpose of paragraph (3) a calendar month only part of which falls within the taxable year is disregarded if less than 15 days of such month are included in such taxable year, and is included as a calendar month within the taxable year if more than 14 days of such month fall within the taxable year.

Subsection (b) of section 101 amends section 12 (b) (1) and (2) of the code and adds new paragraph (3) to section 12 (b). The amendment to section 12 (b) (1) provides that the surtax rates specified in section 12 (b) (1) shall not apply in the case of any taxpayer whose surtax net income is over \$90,000 for any taxable year if the defense tax provided in section 16 is applicable to such taxable year. For the use of such a taxpayer in computing income tax liability, in the case of the taxable calendar year 1951, new paragraph (2) provides a special surtax table. The amount computed under this table must be increased by 4 percent to determine the surtax liability. Paragraph (3), as added to section 12 (b), specifies that, in the case of an individual with surtax net income in excess of \$90,000 for any taxable year beginning after August 31, 1951, the surtax shall be an amount equal to \$55,920 plus 81 percent of the excess over \$90,000. The 12½-percent defense tax increase provided by section 16 is not included in this computation, and the amount computed thereunder must, therefore, be increased by 12½ percent to obtain the surtax liability. It should be noted that the amended paragraph (1) further provides that in the case of a taxpayer who is the head of a household, the tax imposed by subsection (b) of section 12 shall not apply to any taxable year beginning after August 31, 1951. Such an individual will pay a tax for any such taxable year as provided by section 12 (c) of the code as amended by title III of this bill.

Subsection (c) of section 101 amends section 12 (f) of the code relating to limitation on tax. Under paragraph (1) of subsection (f), as amended, it is provided that in the case of a taxable year beginning after September 30, 1950 (other than the calendar year 1951 or a taxable year beginning after August 31, 1951, to which the defense tax provided in section 16 applies), the combined normal tax and

surtax shall in no event exceed 87 percent of the net income. Paragraph (2) of subsection (f) relates to the taxable calendar year 1951 and limits the combined normal tax and surtax for such year, increased as provided in section 16, to 88 percent of net income. Under paragraph (3), applicable to taxable years beginning after August 31, 1951, the corresponding limitation is 90 percent of net income. In the case of a taxable year (other than the calendar year 1951) beginning before September 1, 1951, and ending after August 31, 1951, in computing the tax for such year under section 108 (h) of the code, the 87 percent limitation is applied to the computation of the tentative tax under section 108 (h) (1) (rates applicable to years beginning on October 1, 1950) and the 90 percent limitation is applied to the computation of the tentative tax under section 108 (h) (2) (rates applicable to years beginning on September 1, 1951). For the purposes of paragraphs (1), (2), and (3), the combined normal and surtax is computed without regard to the credits against tax provided by sections 31, 32, and 35 of the code, as provided in section 12 (e).

Subsection (d) of section 101 provides technical amendments to sections 11 (a) and 12 (g) of the code. Subsection (d) (1) adds to section 11 (a) a cross reference to section 16. Subsection (d) (2) amends section 12 (g) of the code by adding a cross reference to new section 16, and to section 108 (h), relating to certain fiscal-year taxpayers.

SECTION 102. INDIVIDUALS WITH ADJUSTED GROSS INCOME OF LESS THAN \$5,000

Section 102 of the bill amends section 400 of the code to provide two new tax tables for the use of taxpayers with adjusted gross income of less than \$5,000. A taxpayer using such tables will not increase the tax found therein by the percentages specified in section 16, since the percentage increases have been incorporated into the tables. Table I is applicable to the taxable calendar year 1951, and is for the use of single persons, married persons filing separate returns, and married persons filing joint returns. Since the provisions of title III of the bill relating to tax treatment in the case of a head of a household do not apply to the calendar year 1951 a single person with adjusted gross income of less than \$5,000 who might for subsequent taxable years qualify for such treatment may use this table in computing income-tax liability for the calendar year 1951. Table II is applicable to taxable years beginning after August 31, 1951, and is for the use of single persons, married persons filing separate returns, married persons filing joint returns, and any single person who qualifies as the head of a household under the provisions of title III of this bill.

SECTION 103. COMPUTATION OF TAX IN CASE OF CERTAIN JOINT RETURNS

Section 103 applies to the situation where a joint return of a husband and wife is filed under the provisions of section 51 (b) (3) of the Internal Revenue Code, the husband and the wife having different taxable years because of the death of either, and the taxable year of the surviving spouse covered by such joint return began before

September 1, 1951, and ended after August 31, 1951. In respect of such a case, section 103 provides that the amendments made by part I of title I of this bill, relating to income-tax rates, shall be applicable to the joint return as if the taxable years of both spouses covered by the joint return ended on the date of the closing of the surviving spouse's taxable year.

Section 51 (b) (3) and (4) of the code permit the filing of a joint return by a surviving spouse if the taxable years of each spouse began on the same day but ended on different days because of the death of either spouse, or both. Under the provisions of section 103, if one spouse dies during 1951 and the surviving spouse elects to file a joint return under section 51 (b) (3) of the code covering both his calendar year 1951 and the taxable year of the deceased spouse, the tax liability on the joint return will be computed at the rates applicable under this bill to a return for the calendar year 1951. It is immaterial, in such a case, whether the taxable year of the deceased spouse ended before or after September 1, 1951. If the taxable year of the surviving spouse which began before September 1, 1951, and ended after August 31, 1951, is not a calendar year, the tax liability on a joint return by the surviving spouse will be computed under the provisions of section 108 (h) of the code (as added by sec. 131 of this bill), and the computations required therein with respect to calendar months in the taxable year will be made by reference to the calendar months of the taxable year of the surviving spouse.

SECTION 104. EFFECTIVE DATE OF PART I

This section provides that the amendments made by part I of the bill are applicable only with respect to taxable years ending after August 31, 1951, except as provided in section 103, and provides a cross reference to section 131 of the bill for treatment of taxable years (other than the calendar year 1951) beginning before September 1, 1951, and ending after August 31, 1951.

PART II—CORPORATION INCOME TAXES

SECTION 121. INCREASE IN RATE OF CORPORATION NORMAL TAX

Subsection (a) of section 121 amends subsections (a) and (b) of section 13 of the code, relating to the normal tax on corporations. The amendment to subsection (a) is a technical amendment, and eliminates from the code provisions which are applicable only to prior taxable years. The subsection as amended retains the definitions of "adjusted net income" and "normal tax net income" added by the Revenue Act of 1950. The amendment to subsection (b) of section 13 increases the normal tax rate from the present rate of 25 percent to the rate of 30 percent. The 30 percent rate is applicable with respect to taxable years beginning after December 31, 1950.

Subsection (b) of section 121 amends section 430 (a) of the code, as added by section 101 of the Excess Profits Tax Act of 1950. Section 430 (a) of the code presently imposes an excess profits tax of whichever is the lesser of: (1) 30 percent of "adjusted excess profits net income" (as defined by sec. 431), or (2) an amount equal to the

excess of 62 percent of the "excess profits net income" (as defined by sec. 433) over the tax which would be imposed for such taxable year if the normal tax rate and the surtax rate applicable for the taxable year were applied to the corporation's "excess profits net income" for the taxable year. The amendment made by this subsection of section 121 changes the percentage limitation figure in the formula provided by section 430 (a) of the code from 62 percent to 70 percent.

Section 207 (a) (1) of the code, relating to normal tax and surtax on mutual insurance companies other than fire or marine, and section 207 (a) (3) relating to the normal tax and surtax on interinsurers and reciprocal underwriters, are amended by subsection (c) of this section to reflect the increase of the normal tax rate on corporations from 25 to 30 percent of normal-tax net income. The 22 percent surtax rate on corporation surtax net income in excess of \$25,000 provided by such amendment is the present rate, as provided by title II of the Excess Profits Tax Act of 1950, applicable with respect to taxable years beginning after June 30, 1950.

Subsection (d) amends section 362 (b) (3) and (4) of the code to provide a 30-percent normal-tax rate in lieu of the 25-percent rate provided by existing law in the case of a regulated investment company. The amendment to section 362 (b) (4) is a technical amendment repealing provisions applicable to prior taxable years.

As amended, both sections 207 and 362 retain the present exemption from surtax of the first \$25,000 of corporation surtax net income without reference to the provisions of new subsection (j) of section 26 of the code, which is added under section 123 of this bill (relating to surtax exemptions and certain credits of related corporations).

Subsection (e) amends section 421 (a) (1) of the code (relating to taxation of business income of certain tax-exempt organizations) to increase the normal tax imposed thereunder from 25 to 30 percent of normal-tax net income.

Subsection (f) (1) is a technical amendment which eliminates from the code, by repeal of section 14, the provisions relating to normal tax on special classes of corporations with normal-tax net income of less than \$25,000. The various alternative rates provided in such section were applicable only in the case of taxable years beginning before July 1, 1950.

Subsection (f) (2) is a technical amendment to section 15 and eliminates from the code provisions applicable only to prior taxable years. The amendment also reflects the shift of the \$25,000 surtax exemption from section 15 (b) (3) to new section 26 (j) which is accomplished by section 123 of this bill.

SECTION 122. CREDITS OF CORPORATIONS

Subsection (a) of section 122 amends subsection (b) (1) and (2) of section 26 relating to the credit for dividends received. The only change made in paragraph (1) of such subsection (relating to the credit for dividends received on stock of a domestic corporation, other than on preferred stock of a public utility) is a technical change. Paragraph (2) of section 26 (b) presently provides for a credit of 59 percent of the amount received as dividends on the preferred stock of a public utility subject to income tax, in the case of taxable years beginning

after June 30, 1950, and for a credit of 57 percent of such amount in the case of the calendar year 1950. This paragraph is amended to provide a credit of 62 percent of the amount of such dividends received which will be applicable to taxable years beginning after December 31, 1950. The provisions relating to other taxable years are eliminated by the amendment.

Subsection (b) of section 122 amends the first sentence of paragraph (1) of section 26 (h) of the code, relating to the credit for dividends paid on the preferred stock of a public utility. In its present form paragraph (1) makes separate provision for such credit in the case of the calendar year 1950 and in the case of taxable years beginning after June 30, 1950. In the former case the credit is 33 percent and in the latter case 30 percent of whichever is the lower of (1) the entire dividends paid on preferred stock of the public utility or (2) the excess of the public utility company's adjusted net income over its dividends received credit under section 26 (b). As amended by this bill, the percentage figure applicable to taxable years beginning after December 31, 1950, becomes 27 percent and the provisions for other years are eliminated.

Subsection (c) of this section amends section 26 (i) of the code to provide for a credit of 27 percent of the normal tax income allowable against both normal-tax net income and surtax net income in the case of a western hemisphere trade corporation, as defined by section 109 of the code. Under the present section 26 (i) such credit was 30 percent of normal-tax net income in the case of taxable years beginning after June 30, 1950, and 33 percent in the case of the calendar year 1950. The provisions with respect to such taxable years are eliminated by this amendment. The new percentage will be applicable with respect to taxable years beginning after December 31, 1950.

SECTION 123. SURTAX EXEMPTIONS AND CERTAIN CREDITS OF RELATED CORPORATIONS

The present exemption of the first \$25,000 of corporation surtax net income in the case of an individual corporation, which formerly appeared in section 15 (b) (1), is preserved in paragraph (1) of a new subsection (j), added to section 26 of the code by this section of the bill. Under paragraph (2) of such new subsection, provision is made for a special surtax exemption (in lieu of the \$25,000 exemption provided by par. (1)) in the case of a corporation which, at the close of December 31 of any taxable year of such corporation which includes such date, is a member of a "controlled group" of corporations, such term being defined in paragraph (3) of such subsection. In general, the surtax exemption provided is in an amount equal to \$25,000 divided by the number of corporations in the controlled group at the close of December 31 in the taxable year, with the further provision that, in lieu of equal division of such \$25,000 exemption, the various members of the group may divide such exemption for the taxable year among themselves in any manner they desire if they file with the Secretary, pursuant to prescribed regulations, a consent which sets forth the agreed manner of division. If such a consent is not filed the surtax exemption will in all cases be divided equally among the members of the group. An exception is made to the provision affording the privilege of a consent division of the \$25,000 exemption

in the case of a member of a controlled group which has a taxable year that does not include December 31, for example, a short taxable year ending before December 31 due to a change in accounting period. The exemption of such member for such year shall be an amount equal to \$25,000 divided by the number of corporations in the group as of the close of such member's taxable year.

Under paragraph (3) of the new subsection (j) the term "controlled group" is defined and rules are provided for determining whether there exists the control through stock ownership which is necessary to bring the related corporations within the definition of a controlled group. Two general classifications of related corporations are dealt with under paragraph (3). The first is that of a group of corporations connected by stock ownership with a common parent through one or more chains of corporations. Under subparagraph (A) (i) of paragraph (3) a corporation is declared to be a member of a controlled group if 95 percent of the voting power of all classes of its stock is held by another corporation in the chain which is connected through stock ownership with the common parent corporation. This is exclusive of the common parent corporation which must, however, under the provisions of subparagraph (A) (ii) of paragraph (3) be a corporation which owns directly at least 95 percent of the voting power of at least one of the other corporations, excluding for the purpose of computing such voting power any intercompany holdings of stock among the other corporations. Thus, assume P owns 94 percent of the voting stock of S which in turn owns the following: 85 percent of the voting stock of S-1, 75 percent of the voting stock of S-2, and 80 percent of the voting stock of S-3. Assume further that S-3 owns 25 percent of the voting stock of S-2 and S-2 owns 10 percent of the voting stock of S-1, and that P owns also 20 percent of the voting stock of S-3. Such corporations do not constitute a "controlled group" since P does not own directly 95 percent of the stock of any of the other corporations even though P owns more than 95 percent of the voting stock of S-3 directly and indirectly.

However, assume that P owns 100 percent of the voting stock of X, that X in turn owns 100 percent of the voting stock of X-1, and that P then sells 25 percent of the voting stock of X to X-1. The group is still a controlled group since P owns 100 percent of the voting stock of X (excluding stock held by X-1, another member of the group). Also, if P owns 75 percent of the voting stock of each of X and X-1 and X owns 25 percent of the voting stock of X-1, and X-1 owns 25 percent of the voting stock of X, the three corporations constitute a controlled group since X's holdings in X-1 and X-1's holdings in X are excluded, making P the direct owner of 100 percent of the voting stock in both X and X-1.

The provisions of subparagraph (A) of paragraph (3) are in many ways similar to those which describe an affiliated group of corporations for the purpose of filing consolidated returns under the provisions of section 141 of the code.

Subparagraph (B) of paragraph (3) of new subsection (j) deals with a second classification of controlled groups. Such a controlled group consists of two or more corporations 95 percent of the voting stock of each of which is owned, directly or indirectly, by or for one individual, or by or for not more than five individuals each of whom owns substantially the same proportion of the voting power in any one of

the corporations in the group as he owns in each of the other corporations. A number of rules are provided under paragraph (3) (B) for the purpose of determining whether ownership of voting power in any one of the several corporations making up the group is substantially proportionate to the ownership in each of the other corporations in the group. The first of these, provided by paragraph (3) (B) (i) of subsection (j), is that an individual as one of five or less individuals will be said to own the same proportion of the stock in any two corporations if by adding not more than 10 percent of the stock which he holds in one corporation to his present ownership therein and by decreasing his present stock ownership in the other corporation by not more than 10 percent he would hold exactly the same proportion of the stock in each. Thus, if A owns 40 percent of the voting stock in X corporation and 48 percent of the voting stock in Y corporation his ownership in the one would be held to be substantially proportionate to his ownership in the other since increasing A's holding in the X corporation by 10 percent and decreasing his holding in the Y corporation by $8\frac{1}{3}$ percent would result in A's having 44 percent of the voting stock in each.

Under paragraph (3) (B) (ii) of subsection (j) it is provided that stock owned directly or indirectly by or for a corporation, partnership, estate, or trust, shall be considered as being owned proportionately by or for its shareholders, partners, or beneficiaries. In paragraph (3) (B) (iii) of such subsection it is provided that an individual shall be deemed to own any stock in the corporation under scrutiny which is owned, directly or indirectly, by or for his spouse.

Paragraph (3) (B) (iv) of subsection (j) provides the rule that if an individual owns more than 50 percent of the stock in any corporation, including ownership of stock imputed to him as a shareholder, partner, or beneficiary of a corporation, partnership, trust, or estate, and including ownership of stock owned by his wife, such individual, for the purpose of determining ownership, shall be deemed to own not only the stock which he holds himself and that of his wife but also the stock owned in such corporation by any of his ancestors or lineal descendants.

Under paragraph (3) (B) (v) of subsection (j) it is provided that an individual's constructive ownership of stock by reason of the ownership of such stock by a corporation, partnership, estate, or trust, of which he is a shareholder, partner, or beneficiary, shall be treated as actual ownership for the purpose of applying the rules of paragraph (3) (B) (ii), (iii), or (iv). Thus, for example, in determining under clause (iii) the amount of stock owned, directly or indirectly, by or for the spouse of an individual, there is to be included the amount of stock considered as owned by her by reason of the ownership of such stock by a corporation in which she actually owns stock. However, it is further provided under such clause (v) that stock which is deemed to be constructively owned by an individual by reason of its being owned by his wife or his ancestors or lineal descendants shall not be treated as actually owned by him for the purpose of imputing the ownership of such stock to a third person. In other words, imputation of ownership of stock may not (except in the case of stock owned by or for a corporation, partnership, estate, or trust) be carried beyond the first person to whom it is imputed in the examination of a given set of facts with a view to determining ownership.

Finally, it is provided under paragraph (3) (B) (vi) of subsection (j) that if stock may be treated as constructively owned by two or more individuals then, in any computation to determine the proportionate voting power of those individuals, such stock is to be treated as constructively owned by the individual whose constructive ownership results in the corporation being a member of a controlled group. If, for example, a father (H) actually owns 60 percent of the stock of X and 60 percent of the stock of Y, his son (S) actually owns 40 percent of X, and his son's wife (SW) actually owns 40 percent of Y, then upon application of clause (vi) X and Y are members of a controlled group owned in the same proportions by H (60 percent) and SW (40 percent). Without the application of clause (vi) the ownership of H and SW would not be proportionate since S's stock in X would (under clauses (iii) and (vi)) be constructively owned by both H and SW with the result that H would be considered as owning 100 percent of the stock of X and 60 percent of the stock of Y and SW would be considered as owning 40 percent of the stock of X and 40 percent of the stock of Y.

The application of the rules contained in subparagraph (3) may be illustrated by the following examples:

Example No. 1.—Assume that the holdings of voting stock in X and Y corporations of a husband (H), his wife (HW), his son (S), his son's wife (SW), a fifth individual (O) who is not related to any of the other individuals, and the public (P), are, respectively, as follows:

	X	Y		X	Y
H.....	40	40	SW.....	15	25
HW.....	12	19	O.....	18	15
S.....	10	0	P.....	5	1

Applying the rules of paragraph (3) (B), X and Y are members of a controlled group on the basis that at least 95 percent of the voting stock of each is owned by three individuals each of whom owns substantially the same proportion of the voting power in X as he owns in Y:

	X	Y
H.....	52	59
SW.....	25	25
O.....	18	15

The husband, H, is considered as actually owning 52 percent of the voting stock of X, including the stock owned by his wife, which is imputed to him upon the application of clause (iii) of paragraph (3) (B). Upon the application of clause (iv) of paragraph (3) (B) he would (without the application of clause (vi)) be considered as owning the stock of his son, S. However, since SW (the wife of H's son) will own substantially the same proportion of the voting power of X and Y upon the application of clause (vi), such clause is applicable and S's stock is imputed to SW and not to H as this will result in Corporations X and Y being members of a controlled group. H's 52 percent of the stock of X and 59 percent of the stock of Y are under clause (i) considered to be in substantially the same proportion. O, who has 18 percent of the stock of X and 15 percent of the stock of Y, is also con-

sidered upon the application of clause (i) as owning substantially the same proportion of the voting power of the corporations.

It will be noted that HW, in lieu of her husband, H, could be considered as owning 52 percent of the stock of X and 59 percent of the stock of Y; but, having imputed ownership of her stock to H, HW is necessarily eliminated. Also, SW's stock in Y could be imputed to S. Thus, X and Y could be considered to be members of a controlled group by reason of the proportionate holdings of HW, S, and O.

Example No. 2.—Assume that the holdings of voting stock in X and Y corporations of a husband, (H), his wife, (HW), a third unrelated individual, (I), and the public, (P), are, respectively, as follows:

	X	Y
H.....	16	16
HW.....	4	0
I.....	80	80
P.....	0	4

X and Y are not members of a controlled group even though H and I together actually own 96 percent of the stock in each corporation and each H and I own equal proportionate interests in X and Y. Upon application of clause (iii), H is considered as owning HW's stock in X. Thus H is considered as owning 20 percent of the voting power in X and 16 percent of the voting power in Y. Upon application of clause (i) H could be considered as owning 18 percent of the voting power in X and 17.6 percent of the voting power in Y, but since the application of clause (i) cannot produce identical ownership H may not be considered as owning substantially the same proportion of voting power in X as he owns in Y.

The next to the last sentence of paragraph (3) of the new section 26 (j) applies to the case where a common parent corporation and its subsidiaries are members of one controlled group by reason of subparagraph (A) and the common parent corporation is a member of another controlled group by reason of subparagraph (B). In such a case the subsidiaries as well as the parent are to be members of the second controlled group. Thus, if individuals A and B each own 48 percent of the voting stock of two corporations O and P, and corporation P owns 95 percent of the voting stock of corporation S which in turn owns 95 percent of the voting stock of S-1, then each of the corporations O, P, S, and S-1 are deemed to be members of the same controlled group.

Subsection (b) of this section amends section 201 (g) of the code (relating to credits allowed to life-insurance companies under sec. 26) and section 204 (f) (relating to credits allowed to insurance companies other than life or mutual) to provide that the surtax exemption provided in section 26 (j) shall be allowed in computing the surtax on corporation surtax net income of any such insurance company. Thus, an insurance company covered by either section 204 (g) or 204 (f) will continue to receive the \$25,000 exemption from surtax unless it is a member of a controlled group within the meaning of paragraph (3) of section 26 (j) in which event it may receive only its portion of a \$25,000 exemption which has been equally divided among the members of the controlled group or such portion of \$25,000 as may be assigned to it in a consent division of such amount.

Subsection (c) of section 123 amends section 431 of the code (relating to the definition of adjusted excess profits net income) to provide that if the excess profits credit of the corporation otherwise computed is less than the amount of the surtax exemption provided in section 26 (j) for the taxable year an excess profits credit equal to such exemption shall be allowed. Each individual corporation which is not a member of a controlled group will thus continue to receive a minimum excess profits credit of \$25,000 and, in the case of a "controlled group" of corporations within the meaning of paragraph (3) of section 26 (j), the group as an entity will receive a \$25,000 minimum which may be used to increase to \$25,000 the credit of any member of the group which has an actual credit of less than \$25,000, or may be apportioned among two or more members which have less than \$25,000 actual excess profits credit. Thus, if corporations X, Y, and Z constitute a controlled group of corporations and X and Y have actual excess profits credits of \$35,000 and \$70,000, respectively, and Z has an actual credit of only \$4,000, Y's credit will be increased to the minimum of \$25,000 if a consent has been filed under section 26 (j) which gives to Y the entire surtax exemption of the controlled group for the taxable year. If a consent is not filed under section 26 (j) for the taxable year, Y's minimum credit would be one-third of \$25,000.

SECTION 124. COMPUTATION OF ALTERNATIVE CAPITAL GAINS TAX

This section amends section 117 (c) (1) of the code (relating to computation of alternative tax in the case of capital gains of a corporation). The purpose of the amendment is to provide that the amount ascertained by application of the alternative rate to capital gains shall be increased as specified in section 16 (c) in the case of taxable years to which the defense tax provided therein is applicable. The amendment made by this section is applicable only with respect to taxable years ending after August 31, 1951.

SECTION 125. EFFECTIVE DATE

This section provides that the amendments made by part II of title I of the bill, except as provided in section 124, shall be applicable only with respect to taxable years beginning after December 31, 1950, and refers to part III of title I of the bill, for provisions with respect to taxable years beginning in 1950 and ending in 1951.

PART III—FISCAL YEAR TAXPAYERS

SECTION 131. FISCAL YEAR TAXPAYERS

This section of the bill amends section 108 of the code, relating to fiscal year taxpayers, both corporate and individual.

Section 108 (f), under existing law and as amended by the bill, provides rules for the computation of the income tax of corporations in the case of fiscal years beginning before July 1, 1950, and ending after June 30, 1950. In the case of such a fiscal year which ends prior to January 1, 1951, the amendment made by the bill does not

change the computation of the tax provided under existing law for such a year. If the fiscal year (beginning before July 1, 1950) ends after December 31, 1950, the amendment does effect a change in the existing law with regard to the computation of the tax for such year under section 108 (f). The amendment provides, in such a case, for the computation and proration of three tentative taxes.

In computing the tentative taxes under paragraphs (1), (2), and (3) of section 108 (f), the net income, and the adjusted net income, of the corporation are not recomputed. However, in the case of a Western Hemisphere trade corporation, or a public utility which has paid dividends on its preferred stock, or any corporation which has received dividends on the preferred stock of a public utility, the amount of the normal-tax net income, and the amount of the corporation surtax net income, will be different for each of the three computations. A western hemisphere trade corporation, for example, will compute its tentative tax under paragraph (1) of section 108 (f) without computing a surtax, and its normal-tax net income will be computed without regard to the credit provided in section 26 (i) of the code; its tentative normal-tax and tentative surtax under paragraph (2) of section 108 (f) will be computed on a normal-tax net income and a corporation surtax net income determined with the allowance of the 31 percent credit provided in section 26 (i) applicable to taxable years beginning on July 1, 1950 (determined without regard to the amendment of sec. 26 (i) made by the Excess Profits Tax Act of 1950); and its tentative normal-tax and tentative surtax under paragraph (3) of section 108 (f) will be computed on a normal-tax net income and a corporation surtax net income determined with the allowance of the 27 percent credit provided in section 26 (i) applicable to taxable years beginning on January 1, 1951.

The following example illustrates the computation and proration of the tentative taxes under paragraphs (1), (2), and (3) of section 108 (f). The X corporation (which is neither a Western Hemisphere trade corporation nor a public utility, and which received no dividends on preferred stock of a public utility) has a normal-tax net income of \$60,000, and corporation-surtax net income in the same amount, for its fiscal year beginning April 1, 1950, and ending March 31, 1951. The first tentative tax, computed under paragraph (1) of section 108 (f), would be 38 percent of \$60,000, or \$22,800, consisting of a tentative normal tax of 24 percent of normal-tax net income and a tentative surtax of 14 percent of corporation-surtax net income. The second tentative tax, computed under paragraph (2) of section 108 (f), would be \$22,000, consisting of a tentative normal tax of 25 percent of \$60,000 (the normal-tax net income) plus a tentative surtax of 20 percent of \$35,000 (the corporation-surtax net income in excess of \$25,000). The third tentative tax, computed under the provisions of paragraph (3) of section 108 (f), would be \$25,000, consisting of a tentative normal tax of 30 percent of \$60,000 (the normal-tax net income) plus a tentative surtax of 20 percent of \$35,000 (the corporation-surtax net income in excess of \$25,000).

The division of such fiscal year by days in respect of the effective dates of the changes made in tax rates in such period would be as follows:

<i>Before July 1, 1950</i>		<i>After June 30, 1950, and before Jan. 1, 1951</i>		<i>After Dec. 31, 1950</i>		
April-----	30	July-----	31	January-----	31	
May-----	31	August-----	31	February-----	28	
June-----	30	September-----	30	March-----	31	
		October-----	31			
		November-----	30			
		December-----	31			
Total-----		91	Total-----	184	Total-----	90

The final tax liability of the X corporation would be determined by apportionment of the tentative taxes and adding the results obtained, in the following manner:

$\frac{91}{365} \times \$22,800$ -----	\$5, 684. 38
$\frac{184}{365} \times \$22,000$ -----	11, 090. 41
$\frac{90}{365} \times \$25,000$ -----	6, 164. 38
Total tax liability-----	22, 939. 17

Section 108 (g) of the code, as amended by this section of the bill, provides for the computation of the tax of a corporation for a taxable year beginning after June 30, 1950, and before January 1, 1951, and ending after December 31, 1950. In the case of such a fiscal year the tax imposed by sections 13 and 15 shall be an amount equal to the sum of—

(1) that portion of a tentative tax, computed under the tax rates, and the credits provided in section 26, applicable to taxable years beginning on July 1, 1950, which the number of days in the fiscal year prior to January 1, 1951, bears to the total number of days in the taxable year, plus

(2) that portion of a tentative tax, computed under the tax rates, and the credits provided in section 26, applicable to taxable years beginning on January 1, 1951, which the number of days in the taxable year after December 31, 1950, bears to the total number of days in the taxable year.

The tentative tax under clause (1) will consist of a tentative normal tax at the rate of 25 percent of the normal-tax net income, and a tentative surtax of 22 percent of the corporation surtax net income in excess of \$25,000. The tentative tax under clause (2) will consist of a tentative normal tax at the rate of 30 percent of the normal-tax net income and a tentative surtax of 22 percent of the corporation surtax net income in excess of \$25,000. For the purposes of the subsection, the corporation is entitled to a surtax exemption of \$25,000, whether or not it is a member of a controlled group as defined in section 26 (j). The net income of the corporation for the taxable year is not recomputed in determining the tentative tax under either clause (1) or (2). If the taxpayer paid or received dividends on preferred stock described in section 26 (h) of the code, or if the taxpayer is a Western Hemisphere trade corporation, the amount of the normal-tax net income, and the amount of corporation surtax net income, applicable in the computation under clause (1), will differ from the amount used for the purpose of clause (2).

A new subsection (h) is also added to section 108 by this section of the bill. The new subsection provides for the computation of the tax of a taxpayer, other than a corporation, for a fiscal year beginning before September 1, 1951, and ending after August 31, 1951. In the case of such a fiscal year, the tax imposed by sections 11 and 12, section 400, or section 421 (a) (2), shall be an amount equal to the sum of—

(1) that portion of a tentative tax, computed under the provisions of sections 11 and 12, or section 400, applicable to taxable years beginning on October 1, 1950, which the number of months in such taxable year prior to September 1, 1951, bears to the total number of calendar months in such taxable year, plus

(2) that portion of a tentative tax, computed under the provisions of sections 11 and 12, or section 400, applicable to years beginning on September 1, 1951, as if such provisions (other than the provisions relating to the head of a household) were applicable to such taxable year, which the number of calendar months in such taxable year after August 1951 bears to the total number of calendar months in such taxable year.

In computing the tentative tax under clause (2), the tax imposed by sections 11 and 12 is determined by applying the percentage increase of $12\frac{1}{2}$ percent specified in section 16, added to the code by the bill. The net income of the taxpayer for the fiscal year is not recomputed in determining the tentative tax under either clause (1) or (2).

Subsection (b) of this section of the bill amends section 430 (b) of the code, relating to computation of the excess profits tax for taxable years beginning before July 1, 1950, and ending after June 30, 1950. The amendment does not change the computation under existing law of the excess profits tax for a taxable year which ends before January 1, 1951. In the case of a taxable year beginning in 1950 (whether beginning before, on, or after July 1, 1950) and ending in 1951 the amendment will not affect the amount of the excess profits tax for the fiscal year if the excess profits tax is the tax computed under section 430 (a) (1), that is, if the excess profits tax is 30 percent of the adjusted excess profits net income. However, if the taxpayer's excess profits tax for such fiscal year is the excess profits tax computed with reference to the ceiling rate of 62 percent provided in section 430 (a) (2), the amendment will result in an increase in the excess profits tax for the taxable year by reflecting the effect of the amendment made by section 121 (b) of the bill raising the 62 percent ceiling figure to 70 percent.

Under the amendment, in the case of a taxable year beginning in 1950 and ending in 1951, a tentative excess profits tax will first be computed (as provided in sec. 430 (b) (2) (A)) under the provisions of section 430 (a) of the code applicable to taxable years ending on December 31, 1950; that is, a ceiling rate of 62 percent is to be applied in the computation. In determining under section 430 (a) (2) the excess of 62 percent of the excess profits net income over the income tax which would be imposed under sections 13, 14, and 15 of the code upon a normal tax net income and corporation surtax net income in an amount equal to the excess profits net income for the taxable year, such tax must be computed under the provisions of section 108 (f) or (g), whichever is applicable. Such excess will be the

tentative tax referred to in section 430 (b) (2) (A) unless 30 percent of the adjusted excess profits net income results in a smaller tentative tax, in which case it will be such smaller tentative tax. In computing 30 percent of the adjusted excess profits net income in the case of a corporation using the excess profits credit provided in section 435, the credit would be determined under paragraph (4) of section 435 (a), as amended by section 502 of the bill, which is applicable to taxable years ending after December 31, 1950.

The computation of a tentative tax under section 430 (b) (2) (B) will be made in the same manner as explained in the preceding paragraph, except that a ceiling rate of 70 percent will be used in lieu of 62 percent. In each case, in computing the income tax under section 108 (f) or (g) upon an amount equal to the excess profits net income, a surtax exemption of \$25,000 is allowable, whether or not the corporation is a member of a controlled group as defined in section 26 (j), added to the code by section 123 of the bill. Similarly in computing 30 percent of the adjusted excess profits net income, the taxpayer is entitled to a minimum excess profits credit of \$25,000 since the amendment of section 431 of the code by section 123 of the bill is applicable only to taxable years beginning after December 31, 1950.

The tentative taxes computed under subparagraphs (A) and (B) of section 430 (b) (2) will then be prorated as provided in such section, and the excess profits tax for the taxable year will be the sum of such prorated taxes.

Subsection (c) of section 131 provides a necessary technical amendment to paragraph (2) of section 108 (e) of the code and changes the designation of the present subsection (g) of section 108 to subsection "(i)."

TITLE II—WITHHOLDING OF TAX AT SOURCE

PART I—WITHHOLDING OF TAX AT SOURCE ON DIVIDENDS, INTEREST, AND ROYALTIES

SECTION 201. COLLECTION OF INCOME TAX AT SOURCE ON DIVIDENDS, INTEREST, AND ROYALTIES

Section 201 of the bill amends subtitle B of the Internal Revenue Code by inserting before chapter 7 a new chapter 6, entitled "Collection of Income Tax at Source on Dividends, Interest, and Royalties." The old chapter 6, which formerly consisted of sections 1200 to 1207 (relating to the capital stock tax), was repealed by section 201 of the Revenue Act of 1945 (Public Law 214, 79th Cong., 1st sess.). The new chapter provides a system for withholding of tax at the source on dividends, interest, and royalties. Chapter 6 consists of subchapters A, B, and C. Subchapter A, which is entitled "Dividends and Interest," consists of sections 1200 to 1204, inclusive, and provides that upon the payment of certain dividends and interest after December 31, 1951, a tax of 20 percent of the amount thereof shall be withheld at the source. Persons making payment of a dividend or interest upon which tax is required to be withheld under subchapter A are not required to furnish to the recipient of such dividend or interest any state-

ment or receipt showing the amount of such payment or the tax withheld. A taxpayer is entitled to apply the amount of tax required to be withheld upon the payment of a dividend or interest to him as a credit against his income tax liability.

Subchapter B, which is entitled "Royalties" and consists of sections 1220 to 1225, inclusive, provides that upon the payment of certain royalties after December 31, 1951, a tax of 20 percent of the amount thereof shall be withheld at the source. Unlike subchapter A, the provisions of subchapter B require persons making payments of royalties subject to withholding to furnish to the recipient of such royalties, on or before January 31 following the close of the calendar year in which such payments were made, statements or receipts showing the amount of royalties paid to each recipient and the amount of tax withheld. Only the amount actually withheld as tax under subchapter B is allowed as a credit against the income tax liability of the recipient of a royalty.

Subchapter C, which is entitled "General Provisions" and consists of sections 1230 to 1235, inclusive, contains certain general provisions which are applicable to any tax required to be deducted and withheld under chapter 6.

CHAPTER 6—COLLECTION OF INCOME TAX AT SOURCE ON DIVIDENDS, INTEREST, AND ROYALTIES

SUBCHAPTER A—DIVIDENDS AND INTEREST

SECTION 1200. DEFINITIONS

Section 1200 contains definitions of the following terms used in chapter 6:

(a) *Dividend*

The term "dividend" as used in chapter 6 is defined in subsection (a) to mean (1) any distribution by a corporation which is a dividend as defined in section 115 (a); and (2) a payment made by a stockbroker to any person as a substitute for a dividend (as defined in sec. 115 (a)) upon which a tax is required to be deducted and withheld under chapter 6. Thus, any distribution made by a corporation to its shareholders, whether in cash or in kind (including a distribution in stock of any corporation other than the distributing corporation), out of (1) its earnings or profits accumulated after February 28, 1913, or (2) the earnings or profits of the taxable year (computed as of the close of the taxable year without diminution by reason of any distributions made during the taxable year), without regard to the amount of the earnings and profits at the time the distribution was made, is a dividend for the purposes of chapter 6. The term "dividend" as used in chapter 6 also means any distribution made by a personal holding company to its shareholders which is a dividend under the provisions of section 115 (a), whether or not such distribution is a dividend as defined in the preceding sentence. A dividend paid by an insurance company to a policyholder, other than a dividend upon the stock of such insurance company, is not a dividend within the meaning of subsection (a). Certain distributions which are dividends under the foregoing definition are exempt from the requirement of withholding

under chapter 6. These exemptions are discussed below. (See sec. 1202, Exemptions from Withholding.)

Any payment made by a stockbroker to any person in connection with a short sale as a substitute for a dividend as defined in section 115 (a) is treated as a dividend for purposes of chapter 6, but only if a tax was required to be deducted and withheld by the corporation paying the dividend on the borrowed stock.

(b) *Interest*

Subsection (b) defines the term "interest" as used in chapter 6 to mean:

(1) Interest on all bonds, debentures, notes, certificates, or other evidences of indebtedness, issued by any corporation, with interest coupons or in registered form. The term "interest" includes interest paid by a corporation on any obligation which at the time of such payment has interest coupons attached or is in registered form, even though the obligation may not have been originally issued with interest coupons or in registered form. The term "corporation" as used in subsection (b) (1) includes an association taxable as a corporation under chapter 1 of the Internal Revenue Code. The term may also include a corporation owned in whole or in part by the United States Government.

(2) Interest on deposits with stockbrokers.

(3) Interest on amounts held by an insurance company under an agreement to pay interest thereon. This paragraph includes interest on dividends held by an insurance company subject to withdrawal on demand, and interest on the proceeds of an insurance policy held by an insurer under an agreement to pay interest thereon. The paragraph does not apply to amounts which represent the so-called "interest element" in the case of annuity or installment payments under a life insurance or endowment contract.

(4) Interest on the overpayment of any internal-revenue tax, except income or excess-profits taxes imposed upon corporations. Thus, any interest upon an overpayment of individual income tax is subject to withholding under chapter 6, even though all or a part of such overpayment is credited against a deficiency in any tax liability, whether income tax or otherwise, owed by the taxpayer.

SECTION 1201. INCOME TAX COLLECTED AT SOURCE

Section 1201 (a) provides that every person making payment after December 31, 1951, of a dividend or interest shall deduct and withhold upon such dividend or interest a tax equal to 20 percent of the amount thereof. For example, the M corporation on June 1, 1952, pays a dividend of 57 cents per share to its stockholders. A, an individual, owns 10 shares of M stock. The total amount of the dividend payable to A is \$5.70. The M corporation is required to deduct and withhold the sum of \$1.14, and it remits to A the sum of \$4.56. As a matter of convenience, the M corporation could effect the 20-percent withholding by adjusting the amount remitted per share to reflect the required withholding. Thus, in the example given the corporation could remit to each stockholder 45.6 cents per share (80 percent of the 57-cent dividend per share). The amount remitted to A on his 10 shares after withholding accordingly would be \$4.56. If A owned

only 6 shares of the M stock, the corporation would be required to deduct and withhold 69 cents in order to effect the 20-percent withholding.

Similarly, if the Q insurance company is paying interest at the rate of 3 percent on an amount held by it under an agreement to pay interest thereon, the company could effect the 20-percent withholding by applying a rate of 2.4 percent in determining the amount to be remitted to the recipient.

The tax must be withheld at the time payment of a dividend or interest is made. The term "payment" includes constructive payment. Dividends or interest are constructively paid when they are credited to the account of or set apart for a taxpayer, so that they may be drawn upon by him at any time although not then actually reduced to possession. To constitute "payment" in such a case, a dividend or interest must be credited to the taxpayer without any substantial limitation or restriction as to the time or manner of payment or condition upon which payment is to be made, and must be made available to him so that it may be drawn upon at any time, and its payment brought within his control and disposition.

For example, the M corporation has outstanding an issue of bonds with coupons attached. Interest on such bonds is due on April 1 and October 1 of each year. On April 1, 1952, M corporation is required to deduct and withhold an amount equal to 20 percent of such interest, except in cases for which an exemption is provided by section 1202. Thus, if A owns one of the bonds and presents on April 8 the coupon due on April 1, 1952, M corporation is required to deduct and withhold the tax on April 1, not at the time the interest is actually paid to A.

Section 1201 (a) further provides that, if the withholding agent is unable to determine the person to whom a dividend or interest is payable, the tax shall be deducted and withheld at the time payment thereof would be made if such person were known. Thus, if a withholding agent is unable to ascertain the identity of the owner of certain stock in respect of which a dividend is payable, or is unable to determine the true owner of stock due to the existence of conflicting claims to such stock asserted by two or more persons, the withholding agent is nevertheless required to deduct and withhold the tax on the amount of the dividend payable in respect of such stock.

Under section 1201 (b), in any case where the withholding agent is unable to determine the portion of a distribution which is a dividend within the meaning of section 115 (a), the tax required to be deducted and withheld shall be computed upon the entire amount of the distribution. Thus, if the corporation making a distribution is unable to determine the portion of such distribution which is out of depletion reserves, the amount to be withheld from the distribution shall be computed on the entire amount thereof.

Section 1201 (c) provides that a withholding agent shall not be liable, except as provided in section 1203 (relating to returns and payment of tax), to any person for the amount of any tax required to be deducted and withheld under subchapter A of chapter 6.

SECTION 1202. EXEMPTIONS FROM WITHHOLDING

The provisions of chapter 6 do not apply to—

(a) A dividend paid in the stock or rights to acquire the stock of the distributing corporation. Such a dividend is not subject to withholding, whether or not the recipient of such stock or rights had an option to be paid in money or other property in lieu of such stock or rights. Subsection (a) applies, whether or not the distribution of such stock or rights to acquire stock of the corporation is a taxable dividend under section 115 (f). However, if a stockholder, pursuant to an option, elects to receive money or other property in lieu of such stock or rights to acquire stock, the distribution in money or other property (assuming it is a dividend as defined in section 115 (a)) is subject to withholding.

(b) Distributions to shareholders which are treated for income-tax purposes as amounts received upon the sale or exchange of property, or distributions with respect to which gain or loss is not recognized to the shareholders. Capital-gain dividends distributed by regulated investment companies are not within this exemption and tax must be withheld upon the payment of such dividends. The purpose of subsection (b) is to exempt from the requirement of withholding any distribution which is treated for tax purposes as an amount received upon the sale or exchange of the stock upon which the distribution is made. Thus, tax is not required to be withheld upon distributions subject to section 115 (c) of the Internal Revenue Code, relating to amounts distributed in complete or partial liquidation of a corporation. Likewise, any distribution with respect to which no gain or loss is recognized under chapter 1 to the stockholders is not subject to the provisions of chapter 6. Thus, a distribution which is made in pursuance of a plan of reorganization, without the recognition of gain or loss under the provisions of section 112 (b) (3), is not subject to withholding.

(c) Any amount which is includible in gross income as a taxable dividend under the provisions of section 112 (c) (2) (relating to certain distributions made in pursuance of a plan of reorganization), section 115 (g) (relating to redemptions of stock), or section 371 (e) (2) (relating to certain distributions pursuant to the order of the Securities and Exchange Commission). Sections 112 (c) (2) and 371 (e) (2), commonly referred to as "boot" provisions, provide that, in the case of certain exchanges not solely in kind, gain realized by the taxpayer may be taxed as a dividend. In such cases the amount taxable as a dividend is dependent upon the amount of gain realized upon the exchange. Since the corporation is unable to ascertain the gain which may be realized by a particular stockholder, and, consequently, the extent to which the distribution represents a dividend, withholding in such cases would be impracticable. Likewise, in the case of stock redemptions, difficulty may be encountered in determining whether they are essentially equivalent to the distribution of a taxable dividend under section 115 (g).

(d) A dividend paid by a Federal Reserve bank, Federal land bank, Federal home-loan bank, central bank for cooperatives, or bank for cooperatives.

(e) Any interest which, irrespective of the person to whom payable, is wholly exempt from the tax imposed by chapter 1 of the Internal

Revenue Code. Thus, interest paid by a State or municipal corporation on its bonds will not be subject to withholding.

(f) Dividends or interest paid by a corporation to another corporation if both corporations are members of the same affiliated group which filed a consolidated income-tax return for the preceding taxable year of the payor corporation. In determining whether both corporations are members of the same affiliated group, the rule provided in the applicable regulations of the Treasury Department relating to consolidated returns of income tax will govern.

(g) Dividends or interest paid by a corporation to one or more (1) governments, (2) political subdivisions thereof, (3) international organizations, or (4) wholly owned instrumentalities or agencies of the foregoing, if the entire class of stock in respect of which such dividend is paid, or the entire class of obligations in respect of which such interest is paid, is owned by one or more of such governments, subdivisions, organizations, instrumentalities, or agencies. Thus, if the Reconstruction Finance Corporation owns an entire class of preferred stock of a corporation, any dividend paid on such stock is exempt from withholding.

(h) Interest on equipment trust certificates. This provision would exempt the usual type of equipment trust certificate secured by railroad rolling stock.

(i) Dividends or interest paid by a foreign corporation, a nonresident alien individual, any partnership not engaged in trade or business within the United States and composed in whole or in part of nonresident aliens, or by an international organization. The term "international organization" has the same meaning as used in section 3797 (a) (18) of the Internal Revenue Code. Thus, interest on the bonds of the International Bank for Reconstruction and Development is not subject to the requirement of withholding.

(j) Any payment of a dividend or interest (except coupon bond interest) to a foreign corporation not engaged in trade or business within the United States, a nonresident alien individual, any partnership not engaged in trade or business within the United States and composed in whole or in part of nonresident aliens, or any foreign government or international organization. If the record owner of the dividend or interest is not a person described in the preceding sentence, the exemption provided by subsection (j) is not applicable. In such case a tax is required to be withheld, even though the beneficial owner may be such a person. In the case of coupon bond interest paid to a person described in the preceding sentence, such interest is exempt from the provisions of chapter 6 only if a certificate filed (in such form and manner, and at such time, as the Secretary may by regulations prescribe) with the withholding agent discloses that the recipient of such payment is such a person described in subsection (j) (1). If the certificate is filed after the expiration of the period in which it must be filed under such regulations, coupon bond interest will not be exempt from withholding under chapter 6. However, the absence of an exemption in any case where the recipient of a dividend or interest is a person described in subsection (j) (1) does not preclude the allowance of a credit or refund, if the tax required to be deducted and withheld under chapter 6 is in excess of the tax (if any) imposed upon such recipient.

(k) Any payment upon which the withholding agent is required to deduct and withhold a tax under section 143 (a) (relating to tax-free covenant bonds, etc.) determined without regard to the provisions of paragraph (2) thereof. Thus, the payment of interest on a tax-free covenant bond issued before January 1, 1934, is not subject to withholding under chapter 6. The fact that the person entitled to receive such interest files with the withholding agent a signed notice in writing, as provided in section 143 (a) (2) of the Internal Revenue Code, claiming the benefit of the exemptions provided in section 25 (b) of the code, thereby relieving the withholding agent of any duty to withhold a tax under section 143 (a) (1), does not abrogate the exemption provided in subsection (k).

(l) Interest on an obligation of a corporation, issued on or after January 1, 1934, and before January 1, 1951, containing a contract or provision by which the obligor agrees to pay the interest without deduction for any tax which the obligor may be required to pay thereon or to retain therefrom under any law of the United States. This exemption is similar to that provided in subsection (k) above.

(m) Dividends paid pursuant to the terms of a lease of property entered into prior to January 1, 1951, if under such lease the shareholders of the lessor corporation are entitled to such dividends without deduction for any tax which any law of the United States might require to be deducted and withheld upon the payment of dividends. This exemption is applicable in any case where the lessee corporation has agreed to reimburse the shareholders of the lessor corporation for any tax required to be deducted and withheld upon the payment of dividends to them.

(n) Amounts (whether or not designated as dividends) paid by a mutual savings bank, savings and loan association, building and loan association, cooperative bank, homestead association, credit union, or any similar organization, in respect of withdrawable or repurchasable shares, investment certificates, or deposits.

SECTION 1203. RETURNS AND PAYMENT

Section 1203 (a) provides that every person required under subchapter A to deduct and withhold any tax shall make a return of such tax and shall pay such tax, at such time, for such period, and in such manner as the Secretary may by regulations prescribe, by making a return of the total amount of dividends and interest, with respect to which tax is required to be deducted and withheld by such person under subchapter A for such period and paying a tax, for which such person shall be liable, in an amount equal to 20 percent of such total. The withholding agent may compute his tax under this section by computing 20 percent of the total amount of dividends and interest paid within the period covered by the return, and the liability of the withholding agent for the tax required to be deducted and withheld under section 1201 (a) will be satisfied by the payment of such amount. It is understood that the regulations will also provide that the withholding agent may, if he so desires, compute the tax payable under this section by computing one quarter of the aggregate amount of dividends and interest actually paid or credited to recipients during the period covered by the return.

Under the provisions of subsection (b), if more or less than the correct amount of tax due for any period under subsection (a) is paid with respect to such period, proper adjustments with respect to the tax shall be made, without interest, in such manner and at such times as may be prescribed by regulations made under chapter 6.

SECTION 1204. CREDIT FOR REGULATED INVESTMENT COMPANIES AND PERSONAL HOLDING COMPANIES

Section 1204 provides that in the case of any withholding agent which is a regulated investment company as defined in section 361 or a personal holding company as defined in section 501, the amount required to be deducted and withheld as tax under chapter 6 with respect to dividends and interest received by it during a taxable year shall be allowed, under regulations prescribed by the Secretary, as a credit against (but not in excess of) the tax for which such withholding agent is liable under section 1203 (a) in respect of dividends and interest paid by it during such year. Thus, if a personal holding company as defined in section 501 receives in 1952 dividends of \$1,000 upon which tax was required to be withheld by the payor corporation under section 1201 (a), the amount of the tax required to be withheld, or \$200, may be applied by the personal holding company as a credit against its liability for the tax which it is required to deduct and withhold upon any dividends paid by it during the same taxable year. Under section 362 (b) (8) of the Internal Revenue Code any dividend declared by a regulated investment company after the close of its taxable year and prior to the time prescribed by law for the filing of its return for such year may, if the company so elects in its return, be treated as having been paid by the company during such taxable year, provided the distribution of the dividend is actually made to shareholders in the 12-month period following the close of such taxable year and not later than the date of the first regular dividend payment made after such declaration. Section 1204 provides that if a dividend is treated as paid during the taxable year of the regulated investment company under section 362 (b) (8), such dividend shall be considered for the purposes of section 1204 as having been paid within the taxable year. Thus, the amount of tax required to be withheld under subchapter A with respect to dividends and interest received by a regulated investment company during a taxable year may be allowed, under regulations prescribed by the Secretary, as a credit against the tax which the company is required to deduct and withhold upon the payment of any dividend declared and paid by it after the close of its taxable year, if such dividend is treated as having been paid during such taxable year under the provisions of section 362 (b) (8). Likewise, in the case of a personal holding company, the credit provided by section 1204 with respect to dividends paid by it during the taxable year may be allowed, under regulations prescribed by the Secretary, as a credit against any dividend paid after the close of its taxable year and before the fifteenth day of the third month following the close of the taxable year, if such dividend is properly claimed and allowable under the provisions of section 504 (c) for the purpose of computing the undistributed subchapter A net income for such taxable year.

SUBCHAPTER B—ROYALTIES

SECTION 1220. DEFINITION OF ROYALTY

Section 1220 defines the term “royalty” as used in chapter 6. Section 1220 (a) covers payments treated as royalties in respect of mines, oil and gas wells, and other natural deposits. Subsection (b) defines payments made with respect to the use of patents, copyrights, secret processes or formulas, trade-marks, or trade brands which are treated as royalties for the purposes of chapter 6. Subsection (c) defines as royalties payments made by an association to its members with respect to the use by other persons of copyrights of such members.

Mineral, oil, and gas royalties

Section 1220 (a) defines as a “royalty” (1) any rent or royalty in respect of mines, oil and gas wells, and other natural deposits, including any delay rental and any minimum royalty, whether or not measured by production or by a share of gross or net income therefrom, and (2) any payment representing a share of the gross or net income derived from the extraction and sale of any natural deposit, but only if the recipient of such rent, royalty, or payment is not personally obligated to pay a proportionate share of development or operating expenses. If a royalty as defined in this subsection is paid in kind, such payment is not treated as a payment of a royalty for purposes of chapter 6. However, in the case of a royalty paid in kind, if it is sold by or on behalf of the recipient to the producer or under a division order, the purchaser is considered as making payment of the royalty in an amount equal to the purchase price. For example, if A, an individual, makes an oil and gas lease to B corporation and reserves a royalty of one-eighth of the oil produced, and A actually receives his share of the oil in kind, such oil is not treated as a royalty for the purposes of chapter 6. However, if A sells the oil to B corporation, the producer, the proceeds paid to him constitute a royalty upon which a tax of 20 percent is required to be deducted and withheld by B corporation. Likewise, if A in lieu of receiving his share of the oil in kind receives the proceeds of one-eighth of the oil from a pipeline company, pursuant to a division order filed with such company, the amount paid to A by the pipeline company constitutes a royalty upon which a tax of 20 percent is required to be deducted and withheld by the pipeline company.

The term “any rent or royalty” used in subsection (a) includes an overriding royalty. For example, if A is the lessee of an oil and gas lease and assigns his interest in the leasehold to B corporation, reserving an overriding royalty of one-eighth of seven-eighths of the oil, the royalty is within the definition contained in subsection (a), unless it is paid in kind to A. Likewise, in any case where a share of the production throughout the life of a lease is reserved, the transaction is essentially a leasing transaction, and all consideration received, including any cash bonus, is a royalty within the definition contained in subsection (a).

The term “producer” as used in section 1220 (a) means the person or persons holding the lessee or working interest and operating the property.

The following examples will illustrate the application of the definition contained in section 1220 (a):

(1) A, an individual, executes an oil and gas lease to B, also an individual. A receives a cash bonus of \$50,000 and retains a one-eighth royalty in the oil produced. Both the cash bonus paid to A and the share of the oil retained by A are within the term "royalty" as defined in subsection (a).

(2) A, an individual, executes an oil and gas lease to a partnership composed of B, C, and D, all individuals. Under the terms of the lease, A is entitled to receive 30 percent of the net proceeds from the operation of the lease. The amount paid to A is a royalty within the definition. If under the terms of the lease A is also entitled to receive \$500,000 payable out of one-eighth of the oil if, as, and when produced, the amount paid to A with respect to the oil payment is likewise a rent or royalty in respect of oil and gas wells.

(3) A, an individual owning an oil and gas lease, assigns three-fourths of the working interest to B corporation. By agreement between the parties, B corporation becomes the operator of the property. A is personally obligated to pay one-fourth of the operating and development expenses incurred by B corporation. A and the B corporation share the net proceeds from the operation of the lease, as joint operators. Therefore, A's share is not a royalty.

(4) B, an individual, owns an oil and gas lease. A pays B \$100,000 in consideration of an oil payment of \$150,000 payable out of one-fourth of the oil if, as, and when produced. Amounts paid to A in respect of the oil payment acquired by him is a "payment representing a share of the gross or net income derived from the extraction and sale" of the oil and a royalty upon which B would be required to deduct and withhold a tax under subchapter B.

An amount paid in respect of mines, oil and gas wells, or other natural deposits is not "a payment representing a share of the gross or net income derived from the extraction and sale of any natural deposit" in any case where such amount represents merely a method chosen by the parties to discharge an obligation to the payee which is payable in any event or which is payable from sources other than production income.

Royalties paid with respect to patents, copyrights, and other property

Section 1220 (b) defines as a "royalty" for the purposes of chapter 6 any payment, however designated, made by a corporation for the privilege of using any patent, pending application for a patent, copyright, secret process or formula, trade-mark, or trade brand, or made by a corporation which is an assignee or an exclusive licensee of any of such property rights. Such a payment is not a royalty, however, unless it is either (1) measured by the use of a patent, pending application for a patent, copyright, secret process or formula, trade-mark, or trade brand, or (2) payable over a period substantially coterminous with the period of the payor's right to use such property. For example, A, an individual, owning a patent useful in the manufacture of prefabricated houses, sells and assigns the patent to a corporation in consideration of the annual payment of 2 percent of the aggregate net sales price of all such houses produced and sold by the corporation. The payment to A by the corporation is a royalty for the purposes of chapter 6. Likewise, if A grants to the corporation an exclusive license

to make, use, and vend the patented device throughout the entire territory of the United States in consideration of an annual payment of \$50,000 for a period of 14 years, and the patent has its full 17 years' life to run, the payments made to A by the corporation constitute royalties for the purposes of chapter 6.

Other amounts treated as royalties in respect of copyrights

Under section 1220 (c) any payment made by an organization to its members in respect of the use of their copyrights, if such organization is authorized to license the use of such copyrights and has control of the receipt, allocation, and distribution of the payments made for such use, is also a royalty for the purposes of chapter 6. An amount paid to such an organization by any person in respect of the use of copyrights of a member of the organization is not a royalty as that term is defined either in section 1220 (b) or (c). Thus, if a group of composers, authors, and publishers are members of an organization to which such members grant the exclusive right to license the use of copyrights owned by such members and the organization licenses third parties to use copyrights owned by any of such members, the amount paid to the organization by the licensee is not a royalty for the purposes of chapter 6. However, any payment allocated by the organization to a member is a royalty upon which a tax of 20 percent is required to be deducted and withheld by the organization. The following example will illustrate the application of subsection (c):

A, B, and C, each the author of musical compositions, are members of the M association, to which they have granted the exclusive right to license the use of their compositions, except for dramatic purposes. The M association executes an agreement with a hotel under the terms of which any music composed by any member of the association may be played in the grill room of the hotel, and the hotel pays to the association \$250 annually for the duration of the agreement for the privilege of using such music. M association in accordance with its rules and its agreement with members allocates a portion of each annual payment to A, B, C, and other members. The amount paid to each member by the association is a royalty for purposes of chapter 6, upon which a tax is required to be deducted and withheld.

SECTION 1221. INCOME TAX COLLECTED AT SOURCE

Under this section every person making payment after December 31, 1951, of a royalty is required to withhold from such payment a tax of 20 percent of the amount paid. The tax must be withheld at the time payment of a royalty is made. The term "payment" includes constructive payment.

Section 1221 (a) further provides that if the withholding agent is unable to determine the person to whom a royalty is payable, the tax shall be withheld at the time payment thereof would be made if such person were known.

Under section 1221 (b), if the withholding agent fails to deduct and withhold a tax under this subchapter and thereafter the tax against which such tax may be credited is paid, the tax under section 1221 shall not thereafter be collected from the withholding agent. Such payment by the recipient of the income does not, however, operate to relieve the withholding agent from liability for penalties or addi-

tions to the tax for failure to deduct and withhold within the time prescribed by law. The withholding agent will not be relieved of his liability for payment of the tax required to be withheld unless he can show that the tax against which the tax under section 1221 may be credited has been paid. Nothing contained in this subsection should be construed to relieve the withholding agent of the duty imposed by law to withhold and pay the tax.

Section 1221 (c) provides that the withholding agent shall be liable for payment of the tax required to be deducted and withheld under subchapter B and shall not be liable to any other person for the amount of any such payment.

Section 1221 (d) provides that refund or credit of tax overpaid under subchapter B shall be made to the withholding agent only to the extent that the tax was not actually withheld. To this extent refund or credit is to be made to the withholding agent subject to the provisions of section 3313 of the Internal Revenue Code. The credit against the income tax of the recipient of a royalty upon which an amount has actually been withheld as tax under subchapter B is provided in section 35 of the Internal Revenue Code, as amended by section 202 of the bill.

SECTION 1222. EXEMPTIONS FROM WITHHOLDING

Under this section withholding is not required in the case of (a) royalties paid to a corporation or to a government or political subdivision thereof; (b) royalties paid by a foreign corporation, a non-resident alien individual, a partnership not engaged in trade or business within the United States and composed in whole or in part of non-resident aliens, or an international organization; or (c) royalties paid to a nonresident alien individual, a partnership not engaged in trade or business within the United States and composed in whole or in part of nonresident aliens, or an international organization.

SECTION 1223. RETURNS AND PAYMENT

Under this section every person required under subchapter B to withhold any tax shall make a return of the tax and shall pay the tax, at the time, for the period, and in the manner as the Secretary may by regulations prescribe. If more or less than the correct amount of tax is paid by the withholding agent, proper adjustments, with respect to both the tax and the amount to be deducted, are to be made, without interest, in such manner and at such times as may be prescribed by regulations made under subchapter B.

SECTION 1224. RECEIPTS

This section imposes upon every person required to withhold a tax on a royalty the responsibility of furnishing to the payee of the royalty not later than January 31 of the year succeeding the calendar year in which the royalty is paid, a written statement showing the amount of the royalties paid to such payee during such calendar year, and the amount of tax withheld in respect of such royalties. Under subsection (b) regulations may require statements to be furnished at other times, to contain other information, and to be in the form prescribed by such regulations. If a duplicate of the statement to

be furnished to the payee of the royalty under this section is made and filed in accordance with regulations, such statement shall constitute the return of information required with respect to such royalties under section 147 of the Internal Revenue Code. Subsection (c) authorizes the Secretary under regulations to grant to any person a reasonable extension of time, not in excess of 30 days, for furnishing statements required under this section.

SECTION 1225. PENALTIES

Under this section any person required by section 1224 to furnish a statement who willfully furnishes a false or fraudulent statement or who willfully fails to furnish a statement in the manner, at the time, and showing the information required under section 1224, or the regulations to be prescribed thereunder, shall for each such offense, upon conviction thereof, be fined not more than \$1,000, or imprisoned for not more than 1 year, or both. The penalty provided by subsection (a) is in lieu of any other penalty provided by law, except the civil penalty provided by subsection (b). Under the latter provision in addition to the criminal penalty any person who willfully furnishes a false or fraudulent statement, or who willfully fails to furnish a statement in the manner, at the time, and showing the information required under section 1224, or the regulations thereunder, shall for each such offense be subject to a civil penalty of not more than \$50.

SUBCHAPTER C—GENERAL PROVISIONS

Subchapter C contains provisions applicable to both subchapter A and subchapter B.

SECTION 1230. DEFINITIONS

Under this section the term "taxable year" has the same meaning as when used in chapter 1 of the Internal Revenue Code. The term "person" as used in chapter 6 includes any government, agency or instrumentality thereof, and any political subdivision, agency or instrumentality thereof. The term "nonresident alien individual" includes an alien resident of Puerto Rico. Thus, a dividend, interest, or royalty paid to an alien residing in Puerto Rico is exempt from the provisions of chapter 6.

SECTION 1231. NONDEDUCTIBILITY OF TAX IN COMPUTING NET INCOME

Under this section any tax withheld is not allowable as a deduction in computing net income for the purpose of any tax on income imposed by act of Congress. Any interest or royalty allowed as a deduction to the person paying such interest or royalty is of course deductible without regard to the amount of tax withheld by such person.

SECTION 1232. RETURN AND PAYMENT BY GOVERNMENTAL PAYOR

If the person required to file a return and pay the tax under the provisions of section 1203 (a) or 1223 (a) is the United States, or any State, Territory, or political subdivision thereof, or the District of Columbia, or any agency or instrumentality of any one or more of the foregoing, the return and payment required by such sections may

be made either by the officer or employee having control of the payment of the dividend, interest, or royalty, or by any officer or employee appropriately designated for the purpose by the person making payment of the dividend, interest, or royalty.

SECTION 1233. TAX-EXEMPT ORGANIZATIONS—REFUNDS

Section 1233 provides that in the case of a person which is exempt from the income tax, if the amount required to be withheld as tax with respect to dividends and interest received during any calendar quarter and the amount actually withheld as tax with respect to royalties received during such calendar quarter exceed the credit claimed by and allowed to such person for such quarter under section 1637, which is added to the Internal Revenue Code by section 203 of the bill, the excess shall be immediately refunded or credited to such person as an overpayment of the tax imposed by chapter 6, provided a claim for refund is filed, or in case no claim is filed if credit or refund is made, after the close of such calendar quarter and on or before March 15 of the fourth calendar year beginning after the close of such calendar quarter. No provision is made in section 1202 or 1222 for a specific exemption from withholding in the case of dividends, interest, or royalties paid to a person which is exempt from income taxation. The term "person" as used in this section includes not only an organization (including a trust) which is exempt from tax under section 101 of the Internal Revenue Code, but also any Government or political subdivision, or agency or instrumentality thereof. The term "person which is exempt from the tax imposed by chapter 1" does not include a taxpayer whose gross income is less than the exemptions provided in section 25 (b) or whose deductions exceed his gross income.

Subject to the credit which may be claimed and allowed under section 1637, a claim may be filed under this section for refund of the amount of tax required to be deducted and withheld upon any dividends or interest paid to the person entitled to file the claim. Failure of the withholding agent to withhold the tax upon dividends or interest does not limit the amount which may be refunded or credited under this section. If the withholding agent fails to withhold the tax under section 1201, the tax will be collected from him. Thus, the fact that the tax required to be withheld under section 1201 may not have been actually withheld by the withholding agent or paid to the collector is no bar to a refund of such tax under this section. On the other hand, a claim for refund may be filed under this section with respect to the tax required to be withheld under section 1221 upon the payment of royalties, only if tax was actually withheld by the withholding agent.

Any person entitled under this section to claim a refund of tax withheld upon dividends, interest, and royalties paid to it may file such claim immediately after the close of the calendar quarter in which such dividends, interest, and royalties were received by it. The term "received" as used in this section includes constructive receipt. Therefore, in any case where a person exempt from income taxation constructively receives interest in any calendar quarter, the tax required to be withheld upon such interest may be included in the claim filed for such quarter, even though the interest may not be actually collected or paid until a subsequent quarter. A claim for

refund under this section need not be filed for each calendar quarter in which dividends, interest, or royalties are received by it. However, no claim in respect of tax withheld upon income may be filed prior to the close of the calendar quarter in which such income is received.

If the person claiming a refund under this section also claims a credit under section 1637 for a calendar quarter and such credit is allowed, the amount which may be refunded under this section may not exceed the tax required to be withheld with respect to dividends and interest received during such quarter, plus the tax actually withheld with respect to royalties received in such quarter, less the amount of such credit allowed. However, the credit allowable under section 1637 is not required to be claimed by a person entitled to file a claim for refund under this section. Such person may pay its liability, if any, for the taxes imposed by subchapters A and D of chapter 9 and file a claim for refund of the total amount in respect of tax required to be withheld upon income received by it during a calendar quarter.

A claim under this section with respect to a calendar quarter must be filed on or before March 15 of the fourth calendar year beginning after the close of such calendar quarter. No interest shall be allowed or paid with respect to any refund or credit allowable under this section for any period prior to the date on which a claim for refund or credit is filed or prior to March 16 of the first calendar year succeeding the close of the calendar quarter in respect of which such refund or credit is claimed, whichever date is the later.

SECTION 1234. FAILURE TO FILE RETURNS

Under this section if any person required to file any return under chapter 6 fails to file such return within the time prescribed by law or by regulations, unless it is shown that such failure is due to reasonable cause and not to willful neglect, the addition to the tax or taxes required to be shown on such return shall not be less than \$5.

SECTION 1235. OTHER LAWS APPLICABLE

All provisions of law including penalties, applicable to the tax imposed by section 2700 of the Internal Revenue Code are insofar as applicable and not inconsistent with the provisions of chapter 6 applicable with respect to any tax required to be withheld under chapter 6. The provisions of section 3661 are also applicable with respect to such taxes.

SECTION 202. CREDIT FOR TAX WITHHELD

Section 202 of the bill amends section 35 of the Internal Revenue Code by adding a new subsection (b). The amendment provides that under regulations prescribed by the Secretary, the amount required to be deducted and withheld as tax under chapter 6 upon the payment of a dividend or interest, and the amount actually withheld as tax upon the payment of a royalty, shall be allowed as a credit to the recipient of the income against his income tax liability. Under section 35 (b) (1) the amount required to be deducted and withheld as tax upon any payment of a dividend or interest is allowed as a credit to the re-

recipient of such dividend or interest, whether or not such amount or any amount was actually withheld by the withholding agent. Failure on the part of the withholding agent to deduct and withhold the tax does not deprive the recipient of the dividend or interest of the credit provided by section 35 (b) (1). Such credit is allowed in any case where the taxpayer receives a dividend or interest upon which a tax is required to be deducted and withheld under chapter 6. On the other hand, the amount allowed as a credit under section 35 (b) (1) with respect to a royalty received by the taxpayer is limited to the amount actually withheld as tax upon the payment of such royalty by the withholding agent.

The credit provided by section 35 (b) is allowed to the taxpayer against his income tax liability for the taxable year in which the dividend, interest, or royalty is received. The term "received" includes constructive receipt. Thus, in the case of coupon bond interest constructively received by a taxpayer on the due date of the coupon, the credit with respect to the amount required to be deducted and withheld is allowable to the taxpayer for his taxable year in which falls such due date, even though the coupon is not presented for payment during such taxable year. For example, the M Corp. has outstanding an issue of coupon bonds. Interest on such bonds is due on April 1 and October 1 of each year. On April 1, 1952, M Corp. makes available for payment the interest due on that date. A, an individual who owns one of the bonds, fails to present the coupon due on April 1 until January 17, 1953. Assuming A files his returns on the calendar-year basis, the credit provided by section 35 (b) is allowed for the taxable year 1952.

Under the withholding system incorporated in subchapter A of chapter 6, no receipt or statement of the amount of dividends or interest paid to the recipient or the amount of tax withheld is required to be furnished by the payor of such income.

It is contemplated that appropriate provision will be made on the return form whereby a recipient of dividends or interest upon which tax is required to be withheld at the source may determine the proper amount to be reported in gross income and the amount to be claimed as a credit under section 35 (b). The recipient will enter on his tax return (1) the net amount of dividends and interest received after withholding, (2) the amount withheld which, at the 20-percent withholding rate, will be determined by computing one-fourth of the net amount received, and (3) the sum of the amount actually received and the amount withheld. The total of the amount actually received and the amount withheld is the sum subject to tax. The recipient will be allowed a credit against his tax liability for the amount determined as tax withheld at source.

After making the computation to determine the gross amount of dividends and interest upon which tax has been withheld and the amount to be allowed as a credit against tax, appropriate adjustment will be made to exclude any amounts which had been properly reported in income for prior years, amounts which are not included in gross income for income-tax purposes, or amounts which are taxable as gain from the sale or exchange of capital assets. Amounts taxable as gain from the sale or exchange of capital assets will be transferred from the dividend schedule to the appropriate schedule in which the taxpayer lists gains and losses from such sales or exchanges.

The "grossing up" method which will be incorporated on the return forms may be illustrated by the following example:

A, an individual, prepares his income-tax returns on the cash receipts and disbursements method of accounting and on the basis of the calendar year. During the calendar year 1952, A receives the following items of income:

(1) Dividends:

(a) A net amount of \$800 from M Corp., representing dividends of \$1,000, less the tax withheld.

(b) A net distribution of \$120 from N Corp., a regulated investment company, representing an ordinary dividend of \$100 and a capital-gain dividend of \$50, less the tax withheld.

(2) Interest:

(a) A net amount of \$64, representing \$80 of interest on two \$1,000 coupon bonds of P Corp., less the tax withheld.

(b) A net amount of \$240, representing \$300 of interest upon the proceeds of a \$10,000 life insurance policy, less the tax withheld, paid by the Q Insurance Co.

A will include in the schedule with respect to dividends upon which tax is required to be withheld at the source the net amount of \$800 received from M Corp. after withholding. The amount of \$120 will be listed as dividends received from N Corp., less the tax withheld. Thus, the total net amount of dividends after withholding included in the schedule will be \$920. A will then enter, as the tax withheld, one-fourth of this amount, or \$230. He will then enter \$1,150 as the total amount of dividends received which were subject to withholding. From this amount \$50, representing capital-gain dividends received from N Corp., will be subtracted and transferred to the capital gains schedule of the return. The resulting figure of \$1,100 is the proper amount to be included in A's gross income with respect to dividends received upon which tax was required to be withheld at the source.

In the interest schedule A will enter as interest received upon coupon bonds of P Corp. the sum of \$64 and also \$240 received from the Q Insurance Co. A will then enter the total net amount of interest received after withholding, or \$304. One-fourth of this amount, or \$76, will be entered in the schedule as the amount of tax withheld at the source. A will then add the amount of tax withheld and the total net amount of interest received after withholding and enter the sum, or \$380, in the schedule as the total interest received. This is the proper amount to be reported in gross income with respect to the interest received. The total of the amounts of income tax withheld as shown on the schedules, \$230 on the dividend schedule plus \$76 on the interest schedule, or \$306, is the amount allowable to A as a credit against his final tax liability under section 35 (b).

The rule that the credit provided by section 35 (b) is allowable against the income tax liability of the taxpayer for the taxable year in which the dividend, interest, or royalty is received is applicable to all taxpayers, including taxpayers who report their income on the accrual basis of accounting. Such taxpayers will follow the same "grossing up" procedure outlined above with respect to dividends and interest upon which tax is required to be withheld at the source. Any interest which accrued and was reported in a prior year, although included in the "grossing up" schedule, will be subtracted from the amount to be included in the gross income of the taxpayer for the

taxable year. The credit under section 35 (b) with respect to such interest is allowable for the taxable year in which the interest is received, and not for the prior year or years when the interest was reported for tax purposes.

Under section 35 (b) the amount withheld as tax upon the payment of a royalty is allowed as a credit to the recipient against his income tax liability for the taxable year in which the royalty is received. The credit with respect to a royalty is limited to the amount actually withheld as tax. The recipient of a royalty will receive from the payor on or before January 31 following the close of the calendar year in which the royalty is paid a statement showing the amount of the royalty paid to him in such year and the amount of the tax withheld. From this statement the recipient can readily ascertain the amount to be included in gross income and the amount of tax withheld to be claimed as a credit on his return against his final tax liability.

If the recipient of the dividend, interest, or royalty is a partnership or a common trust fund, a proportionate share of the entire credit is allowed to each member of the partnership or to each participant in the common trust fund, as the case may be. A partnership or common trust fund will "gross up" its dividends and interest upon which tax is required to be withheld at the source. This procedure will enable it to determine the distributable shares of partners and beneficiaries and the allocated amounts of tax withheld. A partner or participant in a common trust fund will not include any dividends or interest received from a partnership or common trust fund in the "grossing up" schedules on his return. The partnership or common trust fund will provide each partner or participant with the necessary information as to his share of dividends and interest received and tax withheld at the same time he is given the annual summary of his share of income derived from the organization.

If the recipient of a dividend, interest, or royalty upon which tax is required to be withheld is an estate or trust, any legatee, heir, or beneficiary who is subject to income tax and who is required to include a portion of such dividend, interest, or royalty in computing his net income, is entitled to such portion of the credit as is properly allocable to him on the basis of the income allocable to him under section 162 for the taxable year of the estate or trust. Any portion of the credit allowed to any legatee, heir, or beneficiary is not allowed to the estate or trust.

Section 35 (b) (2) is designed to obtain an equitable apportionment of the total credit allowable under section 35 between the estate or trust and the legatee, heirs, or beneficiaries who share in the income upon which tax is required to be withheld at the source. However, under this section a legatee, heir, or beneficiary who is not subject to income tax is not entitled to any portion of the credit with respect to dividends, interest, and royalties received by the estate or trust, even though the share of the income distributed to such beneficiary is derived from such sources.

The application of section 35 (b) (2) may be illustrated by the following examples:

1. The will of A establishes a trust under the terms of which the trustee is to pay one-half of the net income of the trust to A's widow and the other half of the net income to M University, an organization exempt from income taxation under section 101 (6) of the Internal

Revenue Code. During the calendar year 1952, a taxable year of the trust, the trustee received from corporations a net amount of \$8,000, representing dividends of \$10,000 less the tax withheld. Other income received by the trust was not subject to withholding at the source. \$4,000 of the \$8,000 was paid by the trustee to A's widow, and M university received the other \$4,000. The trust is entitled to a deduction of \$5,000 under section 162 (b) with respect to the \$4,000 paid to A's widow, and she is entitled to a credit of \$1,000 against her income tax for the taxable year in which the \$5,000 is includible by her. The trust is entitled to a deduction of \$5,000 under section 162 (a) with respect to the \$4,000 paid to the university, since the M university under these facts is entitled to receive from the trust the balance of \$1,000 which will be refunded to the trust as an overpayment of tax resulting from the credit allowed under section 35 (b) to the trust for its taxable year. Since the M university is a beneficiary which is not subject to income tax, it is not entitled to any portion of the credit allowed under section 35 (b) (2).

2. Under the terms of a trust established by the will of A, the trustees are directed to pay the net income derived from designated improved real property to the widow of A. Net income derived from other sources is to be divided equally among A's three children. The income of the trust, other than income derived from such real property, is from dividends or interest upon which tax is required to be withheld. A's widow is not entitled to any portion of the credit provided by section 35 (b), since she is not required to include any portion of such dividends or interest in computing her net income. The entire credit provided by section 35 (b) would be apportioned equally among A's three children.

3. Under the terms of a trust created by A, the entire net income is to be distributed to his wife on July 1 of each year. The trust makes its returns on the calendar-year basis. On July 1, 1952, the trustee distributes the entire net income of the trust for the calendar year 1951 to the beneficiary. In 1952, the entire net income of the trust is derived from dividends and interest upon which tax is required to be withheld at source and exceeds the net income for the year 1951. The beneficiary is entitled to the entire credit provided by section 35 (b). Even though none of the income actually paid to her was subject to withholding, the amount distributed to her on July 1, 1952, is treated under section 162 (d) (2) as a distribution of the income of the trust for the year 1952. Hence, the provisions of section 35 (b) (2) are applicable.

Section 35 (b) (3) provides that in the case of a regulated investment company or a personal holding company, the credit shall be reduced by the amount of the credit allowed such company under section 1204.

The credit provided by section 35 (b) is not allowable to any recipient which is exempt from income tax. In the case of such a recipient, section 1637, which is added to the code by section 203 of the bill, allows a credit for the amount of the tax withheld at the source against liability for the payment of employment taxes imposed by subchapters A and D of chapter 9. Section 1233, which is added to the code by section 201 of the bill, also makes provision for a refund of the tax withheld at the source under chapter 6.

SECTION 203. CREDITS IN CASE OF ORGANIZATIONS EXEMPT FROM TAX

This section amends subchapter E of chapter 9 of the Internal Revenue Code by adding after section 1636 a new section 1637. The new section provides that in the case of any person (including any government or political subdivision, agency, or instrumentality thereof) which is exempt from income taxation, the amount of tax required to be withheld at the source with respect to dividends and interest received during any calendar quarter, and the amount of tax actually withheld from royalties received during such calendar quarter, may be claimed by such person under regulations prescribed by the Secretary as a credit against (but not in excess of) the amount shown on its return as its liability (after the adjustments, if any, provided for in sections 1401 (c) and 1411 of the code) for such quarter for the taxes imposed by subchapters A and D of chapter 9, relating to the tax imposed or withheld at the source under the Federal Insurance Contributions Act and the tax withheld at the source on the payment of wages and salaries, respectively. This credit may be allowed only if claim therefor is made in accordance with the regulations at the time the return under subchapters A and D of chapter 9 is filed. No provision is made in section 1202 or 1222 for a specific exemption from withholding in the case of dividends, interest, or royalties paid to a person which is exempt from income taxation. The purpose of section 1637 is to permit a person exempt from income tax to offset the tax withheld on dividends, interest, and royalties received by it against its liability for payroll taxes imposed by subchapters A and D of chapter 9. If the amount of tax required to be withheld from dividends and interest received during any calendar quarter and the amount of tax actually withheld from royalties received during such calendar quarter exceeds the credit provided by section 1637, the excess may be refunded under the provisions of section 1233 of chapter 6.

The term "person" as used in this section has the same meaning as used in section 1233. A trust exempt under section 101 is entitled to claim the credit. The term "received" as used in section 1637 includes constructive receipt. Thus, in case of interest constructively received in a calendar quarter the tax required to be withheld upon such interest may be claimed as a credit, even though the interest may not be actually collected or paid until a subsequent quarter.

The credit allowed by section 1637 may be claimed only with respect to tax required to be deducted and withheld on dividends and interest received during a calendar quarter and the tax actually withheld from royalties received during such quarter. If an amount in respect of tax withheld upon dividends, interest, and royalties received during a calendar quarter is not claimed as a credit under section 1637 against the liability for payroll taxes for such quarter, no credit may be claimed under section 1637 in any subsequent quarter in respect of such amount. The credit provided by section 1637 may not exceed the amount shown on the return of the person claiming such credit as its liability, after the adjustments, if any, provided for in sections 1401 (c) and 1411 of the Internal Revenue Code for the calendar quarter in respect of payroll taxes imposed by subchapters A and D of chapter 9. If the liability shown on such return is less than the

taxes actually due, the underpayment in respect of such taxes will be assessed and no credit under section 1637 may be allowed against the underpayment. If the liability shown on the return exceeds the taxes actually due, the excess is an overpayment of the taxes imposed by subchapters A and D of chapter 9, and is subject to the refund provisions applicable to such taxes; and no part of the credit claimed on such returns may be refunded under the provisions of section 1233.

SECTION 204. TECHNICAL AMENDMENTS

Section 204 of the bill makes appropriate technical amendments to the Internal Revenue Code to correlate existing law with the withholding system incorporated in chapter 6 added to the code by this title of the bill.

Subsection (a) amends section 51 (f) relating to the employee's optional individual income-tax return (Form 1040A), on which the tax is computed by the collector of internal revenue. Under existing law an individual is eligible to use the short-form return if his gross income for the calendar year is less than \$5,000 and consists entirely of wages subject to withholding, or of such wages and not more than \$100 in the aggregate of wages not subject to withholding, dividends, and interest. Under section 51 (f) as amended, an individual will be entitled to use the short form (and have his tax computed by the collector) if his gross income is less than \$5,000 and is entirely from one or more of the following sources: Wages, subject to withholding; or dividends (other than a capital-gain dividend distributed by a regulated investment company) or interest on which tax is required to be withheld at source.

Section 51 (f) (3), as amended by subsection (a) of this section, authorizes the Secretary under regulations to extend the use of the short-form return to cases in which the gross income includes income other than wages, dividends, or interest subject to withholding, if such other income is not more than \$200, and also to cases in which the gross income is \$5,000 or more but not more than \$5,200.

Subsection (b) amends section 58 (a), which provides for declarations of estimated tax. At the present time section 58 (a) requires every individual (other than an estate or trust, and other than a non-resident alien whose wages are not subject to withholding, but including every alien individual who is a resident of Puerto Rico during the entire taxable year) to file a declaration of his estimated tax for the taxable year if (1) his gross income from wages subject to withholding will exceed the sum of \$4,500 plus \$600 with respect to each exemption provided in section 25 (b), or (2) his gross income from sources other than wages subject to withholding will exceed \$100 for the taxable year and his gross income will be \$600 or more. Under the amendment an individual will be required to file a declaration of estimated tax for the taxable year only if (1) his gross income from wages subject to withholding plus his gross income from dividends, interest, and royalties subject to withholding under chapter 6 will exceed the sum of \$4,500 plus \$600 with respect to each exemption provided in section 25 (b), or (2) his gross income from sources other than wages, dividends, interest, or royalties subject to withholding will exceed \$100 for the taxable year and his gross income will be \$600 or more.

Subsection (c) amends section 143 (relating to withholding of tax at source on payments to nonresident aliens and others) by adding a new subsection (i), which provides that where any person is required to deduct and withhold a tax under section 143 (b) on dividends or interest on which tax was required to be withheld or on a royalty on which a tax was withheld under chapter 6 whether by him or by another withholding agent, only the excess of the amount which would be required to be withheld under section 143 (b) but for the application of chapter 6 over the amount required to be withheld under chapter 6 shall be withheld. Thus, if stock beneficially owned by a nonresident alien is in the name of a nominee or agent who is a citizen or resident of this country, under chapter 6 the corporation paying a dividend on such stock is required to withhold a tax of 20 percent of the amount of the dividend. In the absence of this amendment the nominee or agent would be required to withhold the full tax required by section 143 (b) when he remits the dividend payment to the owner. However, under section 143 (i) the nominee or agent will be required to withhold only the amount, if any, by which the tax which would otherwise be withheld under section 143 (b) exceeds the tax required to be withheld by the corporation paying the dividend. If the rate applicable to the nonresident alien owner under section 143 (b) is less than the tax required to be withheld under chapter 6, the nominee or agent is relieved of withholding under section 143 (b). Section 143 (i) is applicable whether or not the withholding agent under subsection (b) is the same person who is required to deduct and withhold a tax under chapter 6.

Subsection (d) makes a corresponding amendment of section 144.

Subsection (e) amends section 147 relating to information at the source. Under existing law, information returns with respect to the payment of interest is limited to payments of \$600 or more in any taxable year, except payments of interest upon bonds, mortgages, deeds of trust, or other similar obligations of corporations for which information returns may be required regardless of the amount of payment. This amendment requires information returns for payments of interest, upon which tax is required to be withheld under chapter 6, of \$300 or more and for payments of other interest of \$100 or more. The amendment also authorizes the Secretary by regulations to require information returns for payments of interest not subject to withholding under chapter 6, regardless of the amounts.

Subsection (f) amends section 148 (a) to eliminate the requirement of an information return by a corporation with respect to dividends paid to a shareholder in any calendar year if the entire amount of dividends paid to such shareholder for such year is subject to withholding under chapter 6 and is less than \$300.

Subsection (g) makes a clerical amendment to section 169 (b) by striking out the reference therein to chapter 6, which had to do with the old chapter 6 of the code, relating to the capital stock tax which was repealed by the Revenue Act of 1945.

Section 204 (h) amends section 322 (a) (2), relating to refunds and credits. The present law provides that where the amount of the tax withheld on wages and salaries exceeds the tax liability of the recipient, the amount of the excess is considered an overpayment. This amendment provides that the amount of the credit provided in section 35 against the tax for any taxable year shall, to the extent thereof, be

considered as payment of the tax for such year, whether or not the withholding agent has paid to the collector the amount of the tax withheld at the source under subchapter D of chapter 9 or subchapter B of chapter 6 or the amount of tax required to be withheld at source under subchapter A of chapter 6. The purpose of this amendment is to treat the credit allowed with respect to tax required to be withheld upon payments of dividends and interest and the tax withheld upon payments of royalties under chapter 6 in the same manner as the credit with respect to the tax withheld on payments of wages and salaries is treated under existing law.

Subsection (i) adds a new paragraph (7) to section 322 (b) to provide a special 7-year period of limitations for filing claims for small refunds of tax withheld on dividends, interest, and royalties. The new provision may be availed of only by individuals whose gross income is less than \$600 and who are not required to file a return under section 51 (a) of the Internal Revenue Code. The 7-year period of limitations is applicable only if the overpayment is attributable to the credit allowed by section 35 of the code for tax required to be withheld under chapter 6 on dividends and interest or for tax actually withheld under such chapter on royalties paid to the taxpayer. A refund made under section 322 (b) (7) may not exceed \$2 for the taxable year. This provision does not limit the amount of a refund or credit of an overpayment attributable to the credit allowed under section 35 in respect of tax withheld at the source on dividends, interest, and royalties which may be made within the period of limitations provided by existing law. Subsection (k) amends section 3771 (f) of the code to provide that in the case of a credit or refund of an overpayment made under section 322 (b) (7), as amended by subsection (i), no interest on the overpayment may be allowed or paid for any period ending prior to the expiration of 6 months after the claim is filed, if the claim would be barred under section 322 (b), except for paragraph (7) thereof.

Subsection (j) amends section 322 (e), relating to presumptions as to date of payment of tax. The present law provides that for the purpose of section 322 any tax actually deducted and withheld upon the payment of wages is presumed to have been paid by the recipient of such wages not earlier than the 15th day of the third month following the close of the taxable year with respect to which such tax is allowable as a credit under section 35. Section 322 (e) as amended by this amendment provides that the amount of tax allowable as a credit under section 32 or section 35 is presumed to be paid by the person entitled to such credit on the last day prescribed by law (without regard to any extension of time granted) for filing the return for his taxable year. Section 32 allows the tax withheld under sections 143 or 144 as a credit against income tax liability. Under existing law there is no presumption of payment of the tax allowable as a credit under section 32. If the withholding agent has failed to pay the tax withheld to the collector, such tax is not treated as paid by the person entitled to the credit under section 32, and no amount may be refunded to such person on account of such tax. The amendment changes this rule so that the amount of the tax withheld under sections 143 and 144 and allowed as a credit under section 32 is presumed to have been paid by the person entitled to the credit on the last day prescribed by law for filing the return for the taxable year for which

the credit is allowable. Thus, if the application of the credit under section 32 results in an overpayment, it may be refunded whether or not the tax withheld has actually been paid to the collector.

Subsection (1) makes a clerical amendment of section 3797 (a) (16) of the code, relating to the definition of "withholding agent" by adding references therein to sections 1201 and 1221.

Subsection (m) provides that the amendments made by subsections (a) and (b) shall be applicable to taxable years beginning after December 31, 1951. All other amendments made by part I of title II of the bill become effective upon the date of enactment of the act.

PART II. INCREASE IN WITHHOLDING OF TAX AT SOURCE ON WAGES

SECTION 221. PERCENTAGE METHOD OF WITHHOLDING

Section 221 amends section 1622 (a) of the code by changing the percentage rate of withholding from 18 percent to 20 percent.

SECTION 222. WAGE BRACKET WITHHOLDING

Section 222 amends section 1622 (c) (1), relating to wage-bracket withholding, to provide new tables to reflect the increased tax rates.

SECTION 223. ADDITIONAL WITHHOLDING OF TAX ON WAGES UPON AGREEMENT BY EMPLOYER AND EM- PLOYEE

Section 223 of the bill adds to section 1622 of the code (relating to income tax collected at source on wages) a new subsection numbered (k) and entitled "Additional Withholding." This new subsection authorizes the Secretary to provide, by regulations, for withholding in addition to that otherwise required under section 1622 in cases in which the employer and the employee agree to such additional withholding. The Secretary is authorized to prescribe by regulations the form of such agreement and the conditions under which and the extent to which such an agreement shall be deemed proper. It is further provided by this new subsection that any additional withholding pursuant to such an agreement entered into by and between an employer and an employee shall, for all purposes, be considered tax required to be deducted and withheld.

SECTION 224. EFFECTIVE DATE

The amendments made by this part are applicable only to wages paid on or after September 1, 1951. It is immaterial whether the wages were earned before or after September 1, 1951. If they are paid on or after September 1, 1951, the new withholding rates will apply.

TITLE III—MISCELLANEOUS INCOME TAX AMENDMENTS

SECTION 301. TAX TREATMENT IN CASE OF HEAD OF HOUSEHOLD

This section amends section 12 (c) of the code to provide a special computation of surtax for a taxpayer who qualifies as the head of a household. The effect of the amendment is that the combined normal tax and surtax of such a taxpayer will be an amount approximately equal to the combined normal tax and surtax as computed under sections 11 and 12 (b) reduced by one-half of the amount by which such combined tax exceeds the combined normal tax and surtax that would be determined if the return of the taxpayer were a joint return to which section 12 (d) was applicable. Section 12 (c) is applicable only with respect to taxable years beginning after August 31, 1951.

Paragraph (1) of section 12 (c) contains a special surtax table prescribing the rates of surtax to be used in computing the tax of a head of a household for taxable years beginning after August 31, 1951. The tax computed under such table will be increased by 12½ percent as provided in section 16. However, such table is not to apply in the case of any taxpayer whose surtax net income is over \$90,000 for any taxable year if the defense tax provided in section 16 is applicable to such taxable year. In the case of such a taxpayer, the tax is to be computed by use of a separate table provided for in paragraph (2) of section 12 (c) which is so designed that the marginal combined normal tax and surtax as increased by the defense tax provided in section 16 can in no case exceed 94.5 percent of net income for any taxable year for which the table may be used.

Paragraph (3) defines a head of a household as an individual who is not married at the close of his taxable year and who maintains as his home a household which constitutes for such taxable year the principal place of abode, as a member of such household, of one or more of certain classes of persons related to the taxpayer and described in subparagraphs (A) and (B) of paragraph (3). In no event, however, shall an individual be considered as maintaining a household unless he furnishes over half of the costs of maintaining such household during the taxable year. Thus, for purposes of section 12 (c), only one person can be considered as head of a particular household during a particular taxable year.

The persons described in subparagraph (A) include only a son or daughter (including a stepson or stepdaughter) of the taxpayer, or a descendant of such son or daughter. The persons described in subparagraph (B) are those persons (other than those described in subparagraph (A)) who are dependents of the taxpayer and for whom the taxpayer is entitled to an exemption for the taxable year under section 25 (b).

If the person, whose principal place of abode is the home of the taxpayer, is an unmarried person, as described in subparagraph (A), that is, a child or descendant of a child of a taxpayer, the taxpayer may (if the other requirements of section 12 (c) are met) qualify as a head of a household even though the taxpayer would not be entitled to an exemption for such person as a dependent under section 25 (b).

Thus, an unmarried taxpayer who maintains as his home a household which includes only himself and his unmarried son, may be the head of the household even though the taxpayer does not furnish more than half the support of the son and even though the son has gross income of \$500 or more. If, however, the son is married at the close of the taxable year of the taxpayer, the taxpayer may not qualify as the head of the household by reason of the fact that the principal place of abode of the son is such household unless the taxpayer is entitled to an exemption for the son under section 25 (b), that is, unless the son receives more than half his support from the taxpayer, has gross income of less than \$500 in the calendar year in which the taxable year of the taxpayer begins, and does not make a joint return with his spouse for his taxable year beginning in such calendar year.

A taxpayer whose status as head of a household depends upon the fact that such a household is the principal place of abode of a person described in subparagraph (B) cannot qualify as the head of a household unless such person, for the calendar year in which the taxable year of the taxpayer begins, received more than half of his support from the taxpayer, had gross income of less than \$500 in such calendar year, and, if married, has not made a joint return with his spouse for his taxable year beginning in such calendar year. Thus, a taxpayer who maintains a home for himself and his mother does not qualify as head of a household even though his home constitutes the principal place of abode of his mother unless he is entitled to claim his mother as a dependent under section 25 (b).

A taxpayer will not be considered as the head of a household unless such household actually constitutes his home for the taxable year and also constitutes the principal place of abode for such taxable year of another member of the household who meets the requirements of section 12 (c) (3) (A) or (B). If such other member of the household dies during the taxable year, the taxpayer will not be denied the benefits of this subsection if the taxpayer's household constituted the member's principal place of abode during the taxable year up to the date of his death. Section 12 (c) is intended to apply only where the taxpayer and such other members of the household live together in such household during the entire taxable year (except for temporary absences due to special circumstances). The fact that a child may be at college during the college term does not prevent the home of the taxpayer from also constituting the principal place of abode of the child. However, such home will not be considered as the principal place of abode where the child establishes a separate habitation and only returns for periodic visits. Similarly, such home will not be considered as constituting the principal place of abode of a dependent of the taxpayer who is supported by the taxpayer for a substantial part of the year in lodgings other than those occupied by the taxpayer even though such person may at various periods live in the household, unless the residence of the dependent in other lodgings is not permanent and is due to necessity such as illness. It is also intended that the household constitute the actual place of abode of the taxpayer and it is not sufficient that the taxpayer maintain the household without being an occupant thereof.

Paragraph (4) contains rules for ascertaining the status of the taxpayer and other persons for the purpose of determining whether the taxpayer is the head of a household.

Paragraph (4) (A) provides that a legally adopted child of a person shall be considered a child of such person by blood.

Paragraph (4) (B) provides that an individual who is legally separated from his spouse under a decree of divorce or separate maintenance shall not be considered as married.

Paragraph (4) (C) provides that a taxpayer whose spouse is a non-resident alien shall be considered as not married at the close of the taxable year for the purposes of considering whether the taxpayer is the head of a household. Thus, a taxpayer whose spouse is a non-resident alien (so that such taxpayer may not compute his tax under the income-splitting provisions of section 12 (d)) and who, if unmarried, would qualify as a head of a household may be considered as unmarried despite the fact that he has a spouse.

Paragraph (4) (D) provides that a taxpayer whose spouse (other than a spouse who was a nonresident alien) dies during the taxable year shall be considered as married at the close of his taxable year for the purposes of section 12 (c). Such taxpayer, accordingly, may not be considered as a head of a household for such taxable year.

A taxpayer who at any time during the taxable year is a nonresident alien shall in no case be considered as a head of a household.

SECTION 302. EXPENDITURES IN THE DEVELOPMENT OF MINES

Under existing law all expenditures in excess of net receipts from ores or minerals sold are required to be charged to capital account while a mine is in the development stage and are to be recovered through depletion. However, after a mine has reached the producing status, development costs, whether or not in excess of net receipts from ores or minerals sold, are not treated as capital charges recoverable through depletion but as operating expenses deductible in the year in which the produced ores or minerals benefited thereby are sold.

Section 302 of the bill adds to section 23 (a) (1) of the code a new subparagraph (D) which provides that all expenditures paid or incurred after December 31, 1950, in the development of a mine or other natural deposit (other than an oil or gas well), to the extent paid or incurred after the existence of ores or minerals in commercially marketable quantities has been disclosed shall be deducted ratably as the produced ores or minerals benefited by such expenditures are sold. This section of the bill makes no change in the present treatment of such expenditures for the period after the mine or deposit has reached the producing status. It provides, however, that expenditures during the development stage, and after completion of the initial exploratory work, which under existing regulations are required to be charged to capital account shall be treated in a manner similar to the treatment now accorded such expenditures incurred after the mine or deposit has reached the producing status.

The expenditures which are to be treated as a deferred expense are to be deducted ratably as the units of produced ores or minerals are sold. Accordingly, it will be necessary to estimate the number of units, benefited by such expenditures, in the reserve of the mine or deposit at the close of the initial exploratory work. This estimate is, of course, subject to revision in the event it is ascertained as the result

of operation or development work prior to the close of the taxable year that the remaining recoverable units are materially greater or less than the number remaining from a prior estimate. As these units are produced and sold, the amount of the development costs to be deducted will be an amount which is in the same proportion to the total of such costs which are treated as deferred expenses as the number of units sold is to the number of units in the reserve.

This provision shall have no application to expenditures for the acquisition or improvement of property of a character which is subject to the allowance for depreciation under section 23 (l). However, a reasonable allowance for depreciation on property which is subject to such allowance shall be considered as an expenditure and shall be treated as a deferred expense to the extent allocable to development costs.

Expenditures incurred in the development of a mine or other natural deposit are in no case to be included in the adjusted basis of the property for the purpose of computing a deduction for depletion under section 114. These items are to be treated as an expense for purposes of section 114. For purposes of sections 111, 112, and 113, however, these expenditures are to be considered as capital outlays to be included as part of the cost of the mine or deposit.

Subsection (b) of section 302 of the bill adds a new subparagraph (J) to section 113 (b) (1) (relating to adjusted basis of property) which provides that the basis of mines or natural deposits shall be adjusted for amounts allowed as deductions under section 23 (a) (1) (D) and resulting in a reduction of the taxpayer's taxes under chapter 1 of the code, but not less than the amounts allowable under such section for the taxable year and prior years. Accordingly, if a taxpayer purchases undeveloped mining property for \$1,000,000 and at the close of the development stage has incurred development costs of \$9,000,000, the basis of such property at such time for computing gain or loss will be \$10,000,000. Assuming that the taxpayer in this example has operated the mine for several years and has deducted allowable percentage depletion in the amount of \$2,000,000 and has deducted allowable deferred development expenditures of \$2,000,000, the basis of the property in the taxpayer's hands for purposes of determining gain or loss if sold will be \$6,000,000.

Subsection (c) of section 302 makes a technical amendment to section 24 (a) (2) of the code (relating to items not deductible) in order to remove any doubt as to the deductibility under section 23 (a) (1) (D) of the expenditures incurred in the development of a mine or deposit.

The amendments made by this section of the bill shall be applicable with respect to expenditures paid or incurred after December 31, 1950.

SECTION 303. GAIN FROM SALE OR EXCHANGE OF TAXPAYER'S RESIDENCE

This section of the bill adds a new subsection (n) to section 112 of the code, which relates to the recognition of gain or loss. Paragraph (1) of the new subsection provides, in general, that any gain from a sale of property used by the taxpayer as his principal residence (referred to hereinafter as the "old residence") will not be recognized if the taxpayer within a period beginning 1 year prior to the date of such

sale and ending 1 year after such date purchases property and uses it as his principal residence (referred to hereinafter as the "new residence") except to the extent that the taxpayer's selling price of the old residence exceeds the taxpayer's cost of purchasing the new residence. Such nonrecognition of gain is mandatory. The new subsection does not change the treatment under existing law of loss from the sale or exchange of the taxpayer's residence.

Whether or not property is used by the taxpayer as his residence, and whether or not property is used by the taxpayer as his principal residence (in the case of a taxpayer using more than one place of residence), depends upon all of the facts and circumstances in each individual case, including the bona fides of the taxpayer. The term "residence" is used in contradistinction to property used in trade or business and property held for the production of income. Nevertheless, the mere fact that the taxpayer temporarily rents out either the old or the new residence may not, in the light of all of the facts and circumstances in the case, prevent the gain from being not recognized. For example, if the taxpayer purchases his new residence before he sells his old residence, the fact that he rents out the new residence during the period before he vacates the old residence will not prevent the application of this subsection.

Where part of a property is used by the taxpayer as his principal residence and part is used for business purposes or in the production of income (as in the case where a part of the building in which the taxpayer resides is used as a store or office or is rented or in the case of a farm property) allocation must be made to determine the extent to which the new subsection applies. If the old residence is used only partially for residential purposes, a proper allocation of the gain and of the selling price is necessary; only that part of the gain allocable to the residential portion may be not recognized under the new subsection and only so much of the selling price as is allocable to such part of the property need be reinvested in the new residence. If the new residence is used only partially for residential purposes, then only so much of its cost as is allocable to the residential portion is counted as reinvestment for the purpose of the new subsection.

Property used by the taxpayer as his principal residence may include a houseboat or a house trailer. Paragraph (5) provides that the taxpayer's principal residence may also include stock held by a tenant-stockholder in a cooperative apartment corporation as those terms are defined in section 23 (z) (2) of the code, if the apartment which the taxpayer is entitled to occupy as such stockholder is used by him as his principal residence. Property used by the taxpayer as his principal residence does not include personal property such as a piece of furniture, a radio, etc., which, in accordance with the applicable local law, is not a fixture.

Paragraph (2) (A) provides that an exchange by the taxpayer of his residence for other property shall be considered, for the purposes of the new subsection, to be a sale. Paragraph (2) (B) provides that where the taxpayer's residence (as a result of its destruction in whole or in part, theft or seizure) is compulsorily or involuntarily converted into property or money, the destruction, theft or seizure shall also be considered as a sale. Although paragraph (2) (B) does not specifically provide that an exercise of the power of requisition or condemnation shall be considered a sale, such events are nevertheless sales under the

principle of *Hawaiian Gas Products, Ltd. v. Commissioner*, 126 F. (2d) 4.

For the purposes of this subsection (under par. (2) (C)), the acquisition of property which is used as the taxpayer's principal residence upon an exchange of property by the taxpayer, or upon the compulsory or involuntary conversion of property used by the taxpayer as his principal residence as the result of its destruction, in whole or in part, theft, seizure, requisition, or condemnation, and (under par. (2) (D)) the construction or reconstruction of a residence, shall be considered to be a purchase. The mere improvement of a residence, not amounting to reconstruction, does not constitute a purchase of such residence.

The words "taxpayer's selling price of the old residence" include the amount of any mortgage, trust deed, or other indebtedness to which such property is subject in the hands of the purchaser whether or not the purchaser assumes such indebtedness. Such words also include the face amount of any liabilities of the purchaser which are part of the consideration for the sale. Commissions and other selling expenses paid or incurred by the taxpayer on the sale of the old residence are not to be deducted or taken into account in determining the "taxpayer's selling price of the old residence." In the case of an exchange or conversion which is considered as a sale under this subsection, the amount realized by the taxpayer upon such exchange or conversion shall be considered to be the "taxpayer's selling price of the old residence."

The words "taxpayer's cost of purchasing the new residence" also include such indebtedness to which the property purchased is subject at the time of purchase whether or not assumed by the taxpayer (including purchase-money mortgages, etc.) and the face amount of any liabilities of the taxpayer which are part of the consideration for the purchase; but include only so much of the cost as is attributable to acquisition, construction, reconstruction, or improvements made within the 2-year period of time in which the purchase of the new residence must be made in order to have gain not recognized under this subsection and which is properly chargeable to capital account rather than to current expense. Commissions and other purchasing expenses paid or incurred by the taxpayer on the purchase of the new residence are to be included in determining the "taxpayer's cost of purchasing the new residence." In the case of an acquisition of a residence upon an exchange or conversion which is considered as a purchase under this subsection, the fair market value of the new residence shall be considered as the "taxpayer's cost of purchasing the new residence."

Where any part of the new residence is acquired by the taxpayer, for example, by gift, the value of such part is not to be included in determining the taxpayer's cost of the new residence. If the taxpayer acquires a residence by gift or inheritance, and spends \$10,000 in reconstructing the residence, only \$10,000 may be treated under paragraph (1) as the taxpayer's cost of purchasing the new residence.

Paragraph (6) of the proposed subsection provides that, if the taxpayer and his spouse, in accordance with the regulations which the Secretary shall prescribe pursuant to such paragraph, consent to the application of subparagraph (B) of such paragraph, the words "taxpayer's selling price of the old residence" shall mean the taxpayer's or

the taxpayer and his spouse's selling price of the old residence, and the words "taxpayer's cost of purchasing the new residence" shall mean the cost to the taxpayer, or to his spouse, or to both of them, of purchasing the new residence, whether such new residence is held by the taxpayer, or his spouse, or both. Such subparagraph (B) provides that so much of the gain upon the sale of the old residence as is not recognized solely by reason of paragraph (6) and so much of the adjustment to basis of the new residence under paragraph (4) of the new subsection as results solely by reason of paragraph (6) shall be allocated between the taxpayer and his spouse as provided for in the regulations which the Secretary shall prescribe. Paragraph (6) is applicable only if the old residence and the new residence are each used by the taxpayer and his spouse as their principal residence. If the taxpayer and his spouse do not consent to the application of subparagraph (B), the recognition of gain upon the old residence shall be determined under the proposed subsection without regard to paragraph (6). The following examples will illustrate the application of paragraph (6):

Example (1).—A taxpayer, in 1951, sells for \$10,000 the principal residence of himself and his wife, which he owns individually and which has an adjusted basis to him of \$5,000. Within a year after such sale he and his wife contribute \$5,000 each from their separate funds for the purchase of their new principal residence which they hold as tenants in common, each owning an undivided one-half interest therein. If the taxpayer and his wife consent to the application of section 112 (n) (6) (B), it is anticipated that the regulations which the Secretary shall prescribe under such section will provide that the gain of \$5,000 upon the sale of the old residence will not be recognized to the taxpayer, and the adjusted basis of the taxpayer's interest in the new residence will be \$2,500 and the adjusted basis of the taxpayer's wife's interest in such property will be \$2,500.

Example (2).—A taxpayer and his wife, in 1951, sell for \$10,000 their principal residence, which they own as joint tenants and which has an adjusted basis of \$2,500 to each of them (\$5,000 together). Within a year after such sale, the wife spends \$10,000 of her own funds in the purchase of a new principal residence for herself and the taxpayer and takes title in her name only. If the taxpayer and his wife consent to the application of section 112 (n) (6) (B), it is anticipated that the regulations which the Secretary shall prescribe under such section will provide that the adjusted basis to the wife of the new residence shall be \$5,000, and the gain of the taxpayer of \$2,500 upon the sale of the old residence will not be recognized. The wife, as a taxpayer herself, will have her gain of \$2,500 on the sale of the old residence not recognized under paragraph (1) of section 112 (n).

If the taxpayer sells or otherwise disposes of a new residence prior to the date of the sale of the old residence, paragraph (2) (E) provides that such new residence will not be considered as a new residence for the purposes of this subsection. And, if the taxpayer, within the specified period, purchases more than one property which is used by him as his principal residence during the 1 year succeeding the date of the sale of the old residence, paragraph (2) (F) provides that only the last of such residences so used by him shall be considered a new residence for the purposes of this subsection. However, if the tax-

payer's new residence is destroyed, stolen, seized, requisitioned, condemned, or sold or exchanged under the threat or imminence of requisition or condemnation within the year succeeding the date of the sale of the old residence, then, for the purpose of the preceding sentence, such year is deemed to end on the date of the destruction, theft, seizure, requisition, condemnation, sale, or exchange. If within 1 year prior to the sale of the old residence, the taxpayer sold other property used by him as his principal residence at a gain, and any part of such gain was not recognized under this subsection, paragraph (3) provides that the subsection shall not apply with respect to the sale of the old residence. For the purposes of the preceding sentence, however, the destruction, theft, seizure, requisition, condemnation, or the sale or exchange under the threat or imminence of requisition or condemnation shall not be considered as a sale. The following example will illustrate this paragraph:

A taxpayer sells his old residence on January 15, 1951, and purchases a new residence on February 15, 1951. On March 15, 1951, he sells the new residence and purchases a second new residence on April 15, 1951. The gain on the sale of the old residence on January 15, 1951, will not be recognized except to the extent to which the taxpayer's selling price of the old residence exceeds his cost of purchasing the second new residence purchased on April 15, 1951. Gain on the sale of the first new residence on March 15, 1951, will be recognized. If, instead of selling the first new residence on March 15, 1951, such residence had been destroyed by fire on that date and insurance proceeds in cash had been received as a result thereof, the gain on the sale of the old residence on January 15, 1951, will not be recognized except to the extent to which the taxpayer's selling price of the old residence exceeds his cost of purchasing the new residence purchased on February 15, 1951. And, gain on the involuntary conversion by fire of the first new residence on March 15, 1951, will not be recognized except to the extent to which the amount realized from such conversion exceeds the taxpayer's cost of purchasing the second new residence purchased on April 15, 1951.

Paragraph (4) of the new subsection provides that where the purchase of a new residence results in the nonrecognition, under that subsection, of any part of the gain realized upon the sale of an old residence, then, in determining the adjusted basis of the new residence as of any time following the date of the sale of the old residence, the adjustments to basis shall include a reduction by an amount equal to the amount of the gain which was not recognized upon the sale of the old residence. Such a reduction is not to be made for the purpose of determining the adjusted basis of the new residence as of any time preceding the sale of the old residence. For this purpose the amount of the gain not recognized under this subsection upon the sale of the old residence includes only so much of the gain as is not recognized because of the taxpayer's cost, up to the date of the determination of the adjusted basis, of purchasing the new residence. The following example will illustrate this paragraph:

On January 1, 1951, the taxpayer buys a new residence for \$10,000. On March 1, 1951, he sells for \$15,000 his old residence which has an adjusted basis to him of \$5,000. During April a

wing is constructed on the new house at a cost of \$5,000 and in May he builds a garage at a cost of \$2,000. The adjusted basis of the new residence is \$10,000 during January and February, \$5,000 during March and April, and \$7,000 following the completion of the construction in May.

Whenever a taxpayer sells property used as his principal residence at a gain the statutory period prescribed in section 275 of the code for the assessment of any deficiency attributable to any part of such gain will not expire prior to the expiration of 3 years from the date the Secretary is notified by the taxpayer, in accordance with such regulations as the Secretary may prescribe, of the cost of purchasing the new residence which the taxpayer claims results in the nonrecognition of any part of such gain, or of the taxpayer's intention not to, or failure to, purchase a new residence within the period when such a purchase will result in the nonrecognition of any part of such gain. Such a deficiency may be assessed prior to the expiration of such 3-year period notwithstanding the provisions of any other law or rule of law which might otherwise bar such assessment.

Subsection (b) of the bill makes a number of technical amendments to other sections of the code which are necessitated by the addition of subsection (n) to section 112. The first such amendment provides that section 112 (f), relating to involuntary conversions, shall not apply in the case of property used by the taxpayer as his principal residence if the destruction, theft, seizure, requisition, condemnation, or sale or exchange under the threat or imminence of requisition or condemnation of such property occurred after December 31, 1950. The second such amendment provides that section 113 (a) (9), relating to basis of property acquired as a result of an involuntary conversion, shall not be applicable to property acquired as a result of a compulsory or involuntary conversion of property used by the taxpayer as his principal residence if the destruction, theft, seizure, requisition, condemnation, or sale or exchange under the threat or imminence of requisition or condemnation of such property occurred after December 31, 1950. These sections are superseded in this situation by the new section 112 (n) and the new section 113 (b) (1) (K). The third such amendment adds a new subparagraph (K) to section 113 (b) (1), relating to adjusted basis of property, which provides a cross-reference from such section to section 112 (n) (4). The fourth such amendment adds a new paragraph (7) to section 117 (h), relating to the determination of the holding period, to provide that in determining the period for which the taxpayer has held a residence the acquisition of which resulted under section 112 (n) in the nonrecognition of any part of the gain realized on the sale, exchange, or involuntary or compulsory conversion of another residence, there shall be included the period for which such other residence had been held as of the date of such sale, exchange, or involuntary conversion. The last of such amendments adds a new subsection (e) to section 276, relating to the period of limitation upon assessment and collection, which provides a cross-reference from such section to section 112 (n) (7).

Subsection (c) of the bill contains the effective date of the amendments made by this section of the bill. Such amendments are to be applicable to taxable years ending after December 31, 1950, but the provisions of the proposed section 112 (n) (1) and (6) shall apply only with respect to residences sold, within the meaning of such section,

after such date. A purchase of a new residence prior to December 31, 1950, or in a taxable year ending before January 1, 1951, shall, if otherwise qualified, be considered a new residence for the purpose of section 112 (n) (1) and (6).

SECTION 304. PERCENTAGE DEPLETION

This section of the bill grants a percentage-depletion allowance at the rate of 5 percent, in the case of deposits of asbestos, sand, gravel, granite, marble, stone (including pumice, scoria, and slate), brick clay, tile clay, shale, clamshell, and oystershell. Percentage-depletion allowance is also provided in the case of deposits of tripoli, borax, fuller's earth, refractory and fire clay, quartzite, perlite, diatomaceous earth, metallurgical-grade limestone, and chemical-grade limestone, at the rate of 15 percent. The 5-percent rate of percentage depletion now allowed for coal has been increased to 10 percent. The allowances are of the stated percentages of the gross income from the property but not in excess of 50 percent of the net income (computed without allowance for depletion) from the property.

Subsection (b) of this section makes a technical amendment to paragraph (2) of section 114 (b) of the code in order to eliminate the necessity of listing by name those mines for which depletion based on discovery value is denied by reason of the allowance of percentage depletion.

Your committee has made technical amendments to section 114 (b) (4) (A) which do not alter its substance. A change has also been made in the parenthetical clause stating the source from which thenardite is derived. Under the present wording of the section, percentage depletion is allowed for thenardite produced from brines or mixtures of brine. To remove any ambiguity your committee has changed the wording of this section so that thenardite, including thenardite from brines or mixtures of brine, is permitted the percentage depletion allowance.

The amendments made by this section of the bill shall apply only with respect to taxable years beginning after December 31, 1950.

SECTION 305. CAPITAL GAINS AND LOSSES

This section revises the tax treatment of capital gains and losses in the case of a taxpayer other than a corporation.

Under present law, in the case of a taxpayer other than a corporation, gain or loss from the sale or exchange of a capital asset held for more than 6 months (long-term capital gain or loss) is only 50 percent taken into account in computing net income, and gain or loss from the sale or exchange of a capital asset held for 6 months or less (short-term capital gain or loss) is 100 percent taken into account in computing net income. Hence \$1 of short-term capital loss may offset \$2 of long-term capital gain. For example, an individual having a short-term capital loss of \$1 million would pay no tax upon a long-term capital gain of \$2 million.

In the case of a corporation present law requires that short-term capital loss (or gain) offset long-term capital gain (or loss) dollar for dollar instead of at the 2-to-1 ratio just described. Under the amendments made by this section of the bill, short-term capital loss (or gain)

and long-term capital gain (or loss) will also offset each other dollar for dollar in the case of a taxpayer other than a corporation.

The essentials of the new treatment of taxpayers other than corporations are as follows:

1. Capital gains (whether long-term or short-term) will be 100 percent taken into account in computing gross income.

2. Capital losses (whether long-term or short-term) will be 100 percent taken into account as deductions in computing net income; except that (as under present law) such losses may be allowed only to the extent of capital gains plus the smaller of (a) \$1,000 or (b) the net income (or adjusted gross income in case Supplement T is used) of the taxpayer computed without regard to capital gains and losses.

3. A new deduction from gross income is provided, to be computed as follows: As under present law, the taxpayer will merge his short-term capital gains and losses to obtain his net short-term capital gain or loss, as the case may be; and will merge his long-term capital gains and losses (taken into account 100 percent) to obtain his net long-term capital gain or loss, as the case may be. A taxpayer having a net long-term capital gain will then reduce it by any net short-term capital loss and will take as a deduction one-half of any remaining excess. This new 50-percent deduction for the excess of net long-term capital gain over net short-term capital loss supersedes the 50-percent inclusion of long-term capital gains and losses provided by present law.

4. As under present law, a taxpayer having an excess of net long-term capital gain over net short-term capital loss is permitted to compute an alternative tax by combining a flat percentage of such excess with a partial tax computed in the regular manner upon the balance of his net income.

Subsection (a) of this section adds a new subsection (cc) to section 23 of the code and amends section 117 (b) of the Code (which heretofore has prescribed the percentages of gain or loss taken into account), so as to provide the new deduction for 50 percent of the excess of net long-term capital gain over net short-term capital loss. An estate or trust is required to exclude, in computing this deduction, capital gain which under section 162 (b) or (c) is includible as such by its income beneficiaries.

The following examples will illustrate the differences in the computation of net income under present law and under the new treatment in the case of an individual who, it is assumed, has net income of \$8,000 computed without regard to capital gains and losses:

Example (1).—Assume that the individual realizes \$2,000 of long-term capital gain and \$1,500 of short-term capital loss during the taxable year. Under present law one-half of the gain (\$1,000) is includible in gross income, the \$1,500 loss is allowable, and the net income is \$7,500. Under the new treatment the entire \$2,000 of the gain is includible in gross income, the \$1,500 loss is allowable, a deduction under section 23 (cc) is also allowed in the amount of \$250 (one-half of the excess of the gain over the loss), and the net income is \$8,250.

Example (2).—Assume that the individual realizes \$3,000 of long-term capital loss and \$2,000 of short-term capital gain during the taxable year. Under present law the \$2,000 gain is includible in gross income, the one-half of the loss (\$1,500) taken into account is allow-

able, and net income is \$8,500. Under the new treatment the \$2,000 gain is includible in gross income, the \$3,000 loss is allowable, and net income is \$7,000.

Example (3).—Assume that the individual realizes \$3,000 of long-term capital loss and \$2,000 of short-term capital loss during the taxable year. Under present law net income is \$7,000, and the taxpayer may carry forward, to be used as short-term capital loss in the five succeeding years, \$2,500 (the short-term capital loss, \$2,000, plus one-half of the long-term capital loss, \$1,500, less the loss allowed in the current year, \$1,000). Under the new treatment net income is also \$7,000, but the taxpayer may carry forward, to be used as a short-term capital loss in the five succeeding years, \$4,000 (the aggregate losses of \$5,000 less the \$1,000 allowed in the current year).

Subsection (b) of this section amends section 117 (c) (2) of the code (relating to alternative tax in the case of a taxpayer other than a corporation). This amendment has two purposes: (1) to conform the computation of the alternative tax to the new treatment of capital gains and losses, and (2) to provide that the amount ascertained by application of the alternative rate to capital gains shall be increased as specified in section 16 (c) in the case of taxable years to which the defense tax provided therein is applicable.

Because of the deduction provided by sections 23 (cc) and 117 (b), as amended, net income under the new treatment will include only 50 percent of the excess of net long-term capital gain over net short-term capital loss. Hence it has been necessary to provide that the partial tax, to be computed at the rates and in the manner as if section 117 (c) had not been enacted, shall be computed upon the net income reduced by only such 50 percent of the excess. The amount to be added to the partial tax, to arrive at the total tax, is computed by taking 25 percent of the whole excess of net long-term capital gain over net short-term capital loss and, if section 16 (c) is applicable, increasing such amount as provided in that section.

The application of section 117 (c) (2), as amended, may be thus illustrated: Assume that for the calendar year 1952 an individual has net income of \$90,000 computed as follows: \$50,000 of ordinary net income, and an \$80,000 excess of net long-term capital gain over net short-term capital loss, with a deduction of \$40,000 allowable under section 23 (cc) with respect to such excess. The first step is to compute a partial tax upon \$50,000 under the provisions of sections 11, 12, and 16 (b); this partial tax is \$30,172.50. The second step is to take 25 percent of \$80,000 (excess of net long-term capital gain over net short-term capital loss), which is \$20,000 and to increase that amount by 12½ percent as provided in section 16 (c) (2); the amount thus determined is \$22,500. The alternative tax is, therefore, \$52,672.50 (\$30,172.50 plus \$22,500).

Subsection (c) (1) of this section amends section 22 (n) to provide that the new deduction allowed by section 23 (cc) shall be taken in computing adjusted gross income.

Subsections (c) (2) and (3) make conforming amendments to sections 117 (a) (2), 117 (a) (4), and 117 (j) (2) (A). As amended, these sections deal with specified types of gains "if and to the extent taken into account in computing gross income." Although the percentage inclusion provisions have been eliminated from section 117 (b), this

limiting expression is necessary in order to eliminate any gain which for any reason is not includible in gross income for the taxable year.

Subsection (c) (4) of this section makes a conforming amendment to section 122 (d) (4) of the code (relating to computation of the net operating loss deduction. The principle enunciated by the Supreme Court in the *Reo Motors, Inc. v. Commissioner* (338 U. S. 442), (which disapproved the decision in *Commissioner v. Moore, Inc.* (151 F. (2d) 527)) will govern in applying the effective date provisions with respect to this amendment.

Subsection (c) (5) of this section amends section 162 (a) of the code (relating to deductions of a trust or estate). This amendment merely makes certain that the principle of *United States v. Benedict, et al.* (338 U. S. 692) and related cases will continue under the bill as under existing law, namely, that appropriate adjustment of the deductions under section 162 (a) is to be made on account of the applicable treatment of capital gains and losses.

Subsection (d) of this section provides that the amendments made by the section shall be applicable only with respect to taxable years beginning on or after the date of enactment of the bill. The treatment of capital gains and losses of years beginning before such date is not affected by these amendments for any purpose, including the determination under section 117 (e) of the amount of the capital loss or of the net capital gain for any taxable year beginning before such date. Thus, in the case of a taxpayer whose taxable year is a calendar year, a net capital loss for the calendar year 1950, and the net capital gain for 1951, would be computed without regard to the amendments even though the loss is carried forward under 117 (e) of the code to the calendar year 1952, a year to which the amendments will be applicable. In determining the amount of the net capital loss for 1950 which can be carried over under section 117 (e) to 1953, the computation of the net capital gain for 1952 would, of course, be computed with regard to the amendments made by this section.

SECTION 306. SALES OF LIVESTOCK

This section amends section 117 (j) of the code to provide for the tax treatment of livestock. See page 67 in the general discussion section of this report.

SECTION 307. TAX TREATMENT OF COAL ROYALTIES

This section of the bill amends sections 117 (j) (1) and 117 (k) (2), which relate, respectively, to the definition of property used in the taxpayer's trade or business and to the gain or loss upon the cutting of timber.

The amendment to section 117 (k) (2) provides that if coal which has been owned by the taxpayer for more than 6 months is disposed of by him under any form or type of contract by virtue of which he retains an economic interest in the coal, the difference between the amount received for the coal and the adjusted depletion basis thereof under section 114 (b) (1) shall be treated as a gain or loss, as the case may be, upon the sale of the coal. The amendment to section 117 (j) (1) includes within the term "property used in the trade or business" coal to which section 117 (k) (2) is applicable. The net effect of

these two amendments is to treat the difference between the amount received for the coal and the adjusted depletion basis thereof as gain or loss to which section 117 (j) is applicable; whether such gain or loss will be deemed to be gain or loss from the sale of a capital asset held more than 6 months will depend upon the application of section 117 (j) to these and other transactions of the taxpayer.

It is further provided that this amendment shall not apply in any case where the taxpayer is personally obligated to pay any part of the cost of operations after the disposal of such coal with respect to the mining thereof. However, the amendment may be applied even though the taxpayer prior to the disposal operated the mine. The date of the disposal of coal is, in accordance with the principle of *Springfield Plywood Corporation*, 15 T. C. No. 91 (1950), the date of the royalty contract. An owner shall not be entitled to the allowance for percentage depletion provided for in section 114 (b) (4) with respect to amounts received any part of which are considered to be received from the sale of coal under section 117 (k) (2), as amended by this section.

A clerical amendment is made to section 117 (k) in order to change the heading thereof to conform to the amendments made by this section.

The amendments made by this section shall be applicable with respect to taxable years ending after December 31, 1950, whether the disposal of the coal occurred on, before, or after such date, but shall apply only with respect to amounts received or accrued after such date.

SECTION 308. COLLAPSIBLE CORPORATIONS

This section of the bill amends section 117 (m) of the code, relating to collapsible corporations. Section 117 (m) (2) (A) defines the term "collapsible corporation." Such a corporation is presently defined as a corporation formed or availed of principally for the manufacture, construction, or production of property, or for the holding of stock in a corporation so formed or availed of, with a view to (i) the sale or exchange of stock by its shareholders (whether in liquidation or otherwise), or a distribution to its shareholders, prior to the realization by the corporation manufacturing, constructing, or producing the property of a substantial part of the net income to be derived from such property, and (ii) the realization by such shareholders of gain attributable to such property. This section of the bill adds to such definition the case of a corporation formed or availed of principally for the purchase of property which (in the hands of the corporation) is property described in section 117 (a) (1) (A) (stock in trade, etc.), or for the holding of stock in a corporation so formed or availed of, with a view to (i) the sale or exchange of stock by its shareholders (whether in liquidation or otherwise), or a distribution to its shareholders, prior to the realization by the corporation purchasing the property of a substantial part of the net income to be derived from such property, and (ii) the realization by such shareholders of gain attributable to such property.

It is immaterial, for the purpose of the amendment made by this section of the bill, whether the purchase of the property in question is made from the shareholders of the corporation or from persons other than the shareholders of the corporation. The property, how-

ever, must be property which, in the hands of the corporation, is property of a kind described in section 117 (a) (1) (A). Section 117 (a) (1) (A) excludes from the definition of "capital assets" set forth in section 117 (a) (1), "stock in trade of the taxpayer or other property of a kind which would properly be included in the inventory of the taxpayer if on hand at the close of the taxable year, or property held by the taxpayer primarily for sale to customers in the ordinary course of his trade or business." It is assumed that property which, in the hands of an ordinary corporation, would be property of a kind described in section 117 (a) (1) (A) would also be such property in the hands of a corporation, formed or availed of within the meaning of section 117 (m).

In order to conform the other provisions of section 117 (m) to the above amendment, necessary changes have been made therein.

The amendments made by this section are applicable to taxable years beginning after December 31, 1950, but it is specifically provided that the determination of the tax treatment of gains realized in taxable years beginning prior to January 1, 1951, shall be made as if this section had not been enacted and without interferences drawn from the fact that the amendments made by this section to section 117 (m) are not made applicable to such gains and without interferences drawn from the limitations contained in section 117 (m), as amended by this section.

SECTION 309. DEALERS IN SECURITIES—CAPITAL GAINS AND ORDINARY LOSSES

This section adds a new subsection (n), relating to the treatment of capital gains and ordinary losses by dealers in securities, to section 117 of the code. Under existing law, a taxpayer may be considered as a dealer with respect to certain securities and as an investor with respect to other blocks of securities. Under present court decisions, it is possible for a dealer to shift securities from an investment account to an inventory account or vice versa, thereby affording an opportunity for converting what should be ordinary gain into capital gain and what should be capital loss into an ordinary loss. Section 117 (n), as added by this section of the bill, provides rules designed to prevent a dealer from obtaining the most beneficial tax result by a shift in securities from one account to another, or by insufficient identification of the securities alleged to be within a particular account.

Paragraph (1) of subsection (n) provides rules for the treatment of capital gains by a dealer in securities. Under this paragraph, gain by such a dealer from the sale or exchange of a security shall in no event be considered as gain from the sale or exchange of a capital asset unless (A) the security is, prior to the expiration of the thirtieth day after its acquisition or after the date of enactment of this act (whichever is later), clearly identified in the dealer's records as a security held for investment; and (B) the security is not, at any time after the expiration of such thirtieth day, held by the dealer primarily for sale to customers in the ordinary course of the trade or business. It is contemplated that the regulations may prescribe the methods of identification which will adequately earmark the security as one held for investment.

The provisions of section 117 (n) (1) (A) and (B) are intended to operate only in the case where gain from the sale of a security would, but for the provisions of such paragraph, be considered to constitute capital gain. Thus, if a security sold by a dealer would be considered, but for section 117 (n) (1), to constitute the sale of a security held for investment, gain from the sale of such security will nonetheless not be considered as capital gain unless the security has been properly identified within the 30-day period in the dealer's records as held for investment and is at no other time thereafter held for sale to customers in the ordinary course of the trade or business. However, the mere fact that a security, which is actually held by the dealer for sale to customers in the ordinary course of the trade or business, is identified as required by this section as a security held for investment, will not cause the gain from the sale of the security to be treated as capital gain.

Section 117 (n) (2) provides the rule for treatment of ordinary losses by a dealer in securities. This rule is that a loss from the sale or exchange of a security shall be considered as a capital loss if at any time after the thirtieth day following the date of enactment of this act the security was clearly identified in the dealer's records as a security held for investment. The effect of section 117 (n) (2) is that, if a security has once been identified as held for investment, a loss on the subsequent disposition of such security shall in no event be considered as a loss from the sale or exchange of property which is not a capital asset.

For the purposes of section 117 (n) the term "security" means any share of stock in any corporation, any certificate of stock or interest in any corporation, a note, bond, debenture, or evidence of indebtedness, or any evidence of an interest in or right to subscribe to any of the foregoing.

The amendment made by this section is applicable only with respect to sales or exchanges made after the expiration of the thirtieth day after the date of enactment of this act.

SECTION 310. TREATMENT OF GAIN ON SALES OF CERTAIN PROPERTY BETWEEN SPOUSES AND BETWEEN AN INDIVIDUAL AND A CONTROLLED CORPORATION

Section 310 (a) of the bill adds a new subsection (o) to section 117 of the Internal Revenue Code so as to provide that in the case of a sale or exchange, directly or indirectly, of depreciable property (1) between husband and wife, or (2) between an individual and a corporation in which he owns, directly or indirectly, more than 50 percent of the value of the outstanding stock, any gain recognized to the transferor shall be considered ordinary income and not capital gain. The transfer of the property can be from the corporation to the stockholder or from the stockholder to the corporation. The property transferred must be property which in the hands of the transferee is property of a character which is subject to the allowance for depreciation provided in section 23 (1) of the code.

An individual will be considered to control a corporation if he owns, directly or indirectly, more than 50 percent in value of the outstanding stock of the corporation. The new section 117 (o) (3) sets forth detailed rules as to stock ownership for purposes of determining whether an individual does own more than the required amount of

stock. Thus, section 117 (o) (3) (A) provides that stock owned, directly or indirectly, by or for a corporation, partnership, estate, or trust shall be considered as being owned proportionately by or for its stockholders, partners, or beneficiaries. Likewise, section 117 (o) (3) (B) provides that an individual shall be considered as owning the stock owned, directly or indirectly, by or for his spouse.

Section 117 (o) (3) (C) provides that if an individual owns more than 10 percent in value of the outstanding stock of a corporation, including stock constructively owned by him upon the application of section 117 (o) (3) (A) and (B), discussed above, that individual shall likewise be considered as owning the stock of the corporation owned, directly or indirectly, by or for his brothers and sisters (whether by the whole or the half blood), ancestors, and lineal descendants. Thus, assume that an individual, D, owns 5 percent of the stock of Corporation P, that his wife owns 20 percent of the stock of P, and that his brother owns 40 percent of the stock. Since D owns more than 10 percent of the stock of the corporation, taking into account the stock owned by his wife, D will be considered as owning the stock owned by his brother and consequently will be considered as owning 65 percent of the stock of Corporation P (the 5 percent owned by D directly; plus the 20 percent owned by his wife; plus the 40 percent owned by his brother).

Section 117 (o) (3) (D), however, provides that any stock which is considered as constructively owned by a person because owned by or for his spouse, brother, sister, ancestor, or lineal descendant shall not be considered as owned by such person for purposes of determining whether such stock is constructively owned by some third person. Thus, a man will be considered as owning all the stock owned by his wife in determining whether he owns more than 50 percent of the stock of a corporation. The wife's stock will be disregarded, however, in determining the stock ownership of the man's brother. Assume, for example, that an individual, G, owns 15 percent of the stock of Corporation S; his wife owns 20 percent of the stock of S; and his brother owns 30 percent of the stock. G is considered as owning both his wife's and his brother's stock in determining whether he owns more than 50 percent of the stock of Corporation S and consequently is considered as owning 65 percent of the stock (the 15 percent owned by G; plus the 20 percent owned by his wife; plus the 30 percent owned by his brother). In determining the stock owned by G's brother, however, the brother is considered as owning the 15 percent of the stock owned by G directly but is not considered as owning the 20 percent of the stock actually owned by G's wife and, therefore, only constructively owned by G. G's brother, therefore, will be considered as owning only 45 percent of the stock (the 30 percent owned by him directly; plus the 15 percent actually owned by G). In summary, an individual may be considered as constructively owning stock which in turn is constructively owned by another person through a corporation, partnership, estate, or trust, but will not be considered as constructively owning any stock which in turn is constructively owned by another person through such other person's spouse, brother, sister, ancestor, or lineal descendant.

Section 310 (b) of the bill provides that the provisions of section 117 (o) shall apply only with respect to sales or exchanges made after May 3, 1951.

SECTION 311. LIFE INSURANCE COMPANIES

This section would amend section 202 (b) (2) of the code to provide that the special rule contained therein for computation of the figure to be used by life-insurance companies in determining, for the purpose of taxable years beginning in 1949 and 1950, the reserve and other policy liability credit allowed in computing the taxable income of such companies, shall also be used in determining the figure for the purpose of taxable years beginning in 1951.

Sections 202 (b) and 203 (b) of the code provide for a reserve and other policy liability credit to be allowed in computing the taxable income of life-insurance companies. The amount of the credit is computed for the purpose of normal tax by multiplying the normal tax net income, and for the purpose of the surtax by multiplying the corporation surtax net income, by a figure to be determined and proclaimed by the Secretary of the Treasury for each taxable year. The figure, which is based on data with respect to life-insurance companies for the preceding taxable year, is the same for all life-insurance companies and is computed in accordance with a formula set forth in section 202 (b) (1) of the code. However, since the figure resulting from the formula in the years 1947 and 1948 was in excess of 1, the effect of the policy and other liability credit in such years was to exempt life-insurance companies from tax on their otherwise taxable life-insurance income. To remedy this defect, section 401 of the Revenue Act of 1950 added paragraph (2) to section 202 (b) to provide for a modification in the formula to be used in the computation of tax for taxable years beginning in 1949 and 1950.

The amendment made by this section requires the use of the formula with the modifications contained in section 202 (b) (2) for the year 1951 as well as for the years 1949 and 1950.

SECTION 312. TAX TREATMENT OF CERTAIN INVESTMENT COMPANIES

This section adds a new subsection (c) to section 361 of the code, which contains certain requirements applicable to regulated investment companies under supplement Q of chapter 1.

Subsection (b) of section 361 provides certain limitations on the types and amounts of securities which may be held by a regulated investment company if the company is to qualify for the tax treatment under supplement Q. Among such limitations is a requirement that at the close of each quarter of the taxable year of a company, at least 50 percent of the value of its total assets be represented by cash and cash items, Government securities, securities of other regulated investment companies or securities in other companies limited in respect of any one issuer (1) to an amount not in excess of 5 percent of the value of the assets of the investment company, and (2) to not more than 10 percent of the outstanding voting securities of such issuer.

Section 361 (c), as added by this section of the bill, provides that in the case of a registered management investment company which is certified by the Securities and Exchange Commission as principally engaged in supplying capital to other corporations which are principally engaged in the development or exploitation of inventions, technological developments, new processes, or products not previously

generally available, the investment company, notwithstanding the 10-percent stock ownership limitation in section 361 (b), may include, in the 50 percent of its assets restricted under section 361 (b), securities of an issuer which constitute more than 10 percent of the outstanding voting stock of such issuer. The stock of any issuer may not be so included if the investment company has continuously held any securities of such issuer (or of a predecessor company as determined under regulations prescribed by the Secretary) for 10 or more preceding years. This provision does not modify the 5-percent limitation with respect to the amount of assets which may be invested in securities of any one issuer. Section 361 (c) does not apply in any taxable year if at the close of any quarter of the taxable year more than 25 percent of the total assets of the investment company is represented by securities of issuers as to which (1) the investment company holds more than 10 percent of the outstanding voting stock and (2) the investment company has continuously held any security (or any security of a predecessor of such issuer) for 10 or more years, unless within 30 days after the close of such quarter the value of the total assets represented by such securities is reduced to 25 percent or less of the value of the total assets of the investment company.

In the determination by the Securities and Exchange Commission, consideration is to be given to the purpose and function of the investment company and to its continuing over-all operation. Ordinarily, for example, it would be requisite that a major portion of the assets of the investment company represent securities in operating companies developing and exploiting new processes and products. It is recognized, however, that such an investment company may find it desirable to invest a portion of its assets in other securities, such as Government bonds, which will provide operating income to meet the expenses incurred in making investments in companies developing new products, etc. An investment company would not qualify under subsection (c) if its principal purpose or activity is to establish and maintain control, as a holding company, over the operating companies and not merely to foster the initial development of such companies. Retention of an investment in one or more operating companies, however, would not necessarily imply holding company status if the operations of the investment company, viewed as a whole, indicated that the retention of such securities is incidental to its principal activities.

An operating company will not be considered to be engaged in the development of new processes or products merely because the process or product is new to the company. It is essential that the process or product represent a substantial technological improvement, or be different to a material degree from a process or product previously available. Thus, a change in style, a new model, an adaptation of an existing product, or such improvements as are customarily made in the trade would not qualify.

For the purposes of subsection (c), a corporation which was, at the time of the first acquisition of its securities by the investment company, principally engaged in the development or exploitation of inventions, technological improvements, new processes, etc., will be considered to have continued to be so engaged for at least 10 years after the date of such acquisition. Accordingly, the investment company which acquires the securities of another company which is then principally engaged in developing a new product may continue,

for the purposes of subsection (c), to hold such securities for a period of 10 years even though during such period the subsidiary company may be actively marketing the product which it has developed.

It is provided that the terms used in section 361 (c) shall have the same meaning as in section 361 (b) (3). For example, the term "value" as used in section 361 (c) means, with respect to securities (other than those of majority-owned subsidiaries) for which market quotations are readily available, the market value of such securities; and with respect to other securities and assets, the fair value as determined in good faith by the board of directors subject to the exception that the value of securities of majority-owned subsidiaries which are investment companies shall not exceed the higher of market value or asset value.

Section 361 (c) does not, except with respect to waiver of the 10-percent limitation on voting stock under the circumstances indicated, affect any of the requirements under section 361 or 362 which would otherwise be applicable to the investment company for purposes of the tax treatment under supplement Q.

Subsection (b) of section 312 provides a technical amendment to section 361 (b) (3) (A) of the code.

The amendments made by this section of the bill are applicable to taxable years beginning after December 31, 1950.

SECTION 313. FAMILY PARTNERSHIPS

This section amends section 3797 (a) (2) of, and adds a new section 191 to, the code to provide for the tax treatment of family partnerships as explained beginning on page 67 in the general discussion section of this report.

TITLE IV—EXCISE TAXES

PART I—TAX ON ADMISSIONS AND CABARETS

SECTION 401. REMOVAL OF TAX ON FREE ADMISSIONS

This section amends section 1700 (a) (1) by striking out the second sentence thereof providing that persons (except bona fide employees, municipal officers on official business, and children under 12 years of age), admitted free or at reduced rates, shall pay the same tax as persons paying the regular admission charge. There will thus be no tax on free admissions, and with respect to admissions at reduced rates, the tax will be determined by the first sentence of section 1700 (a) (1), as amended by section 1650, which imposes on admissions a tax of 1 cent for each 5 cents or major fraction thereof. The fourth sentence (relating to exemption from tax by regulation in the case of free admission of certain members of the Armed Forces) of such section is stricken as surplusage upon the elimination of the second sentence.

SECTION 402. EXEMPTIONS FROM ADMISSIONS TAX

Subsection (a) of this section reinstates the applicability of section 1701 of the Internal Revenue Code which exempted prior to October 1, 1941, certain admissions from the admissions tax.

Subsection (b) amends section 1701 (a) of the code so as to retain the exemptions from the admissions tax which existed prior to October 1, 1941, except in the following respects:

(1) Under the amendment the admissions tax will apply to admissions to all athletic games or exhibitions except those where the proceeds inure exclusively to the benefit of an elementary or secondary school. Under the pre-1941 law the exemption from the admissions tax was denied only with respect to admissions to an athletic game or exhibition the proceeds of which inured wholly or partly to the benefit of a college or university.

(2) The admissions tax will apply in the case of admissions to all wrestling matches, prize fights, or boxing, sparring, or other pugilistic matches or exhibitions, regardless of to whom the proceeds are payable. Under the pre-1941 law admissions to such exhibitions were in some cases exempt from tax.

(3) The exemption will not apply in the case of admissions to carnivals, rodeos, or circuses in which any professional performer or operator participates for compensation. There was no corresponding provision in the pre-1941 law.

(4) The exemption with respect to admissions all the proceeds of which inure exclusively to the benefit of societies or organizations conducted for the sole purpose of improving any city, town, village, or other municipality is eliminated from the pre-1941 exemptions. Many organizations serving such functions are specifically allowed an exemption under other provisions retained by the amendment.

(5) No exemption is granted under the amendment on the ground that all the proceeds inure exclusively to the benefit of persons in the military or naval forces of the United States or to persons who have served in such forces and are in need.

(6) Under pre-1941 law the exemption applied to admissions where the proceeds inured exclusively to the benefit of members of the police or fire department of any city, town, village, or other municipality or the dependents or heirs of such members. Under the amendment the proceeds must inure exclusively to the benefit of a police or fire department (including a volunteer fire department) of any such locality or exclusively to a fund for the sole benefit of members of a police or fire department or the dependents or heirs of such members.

Opera companies not operated for the purpose of making a profit are to be considered as "educational organizations" so that admissions all of the proceeds of which inure exclusively to the benefit of such companies will be exempt from tax.

Subsection (c) adds a new subsection (d) to section 1701 of the code. This new subsection grants an exemption covering admissions to facilities for physical recreation, such as swimming pools, bathing beaches, and skating rinks (including exhibitions and tournaments conducted at such facilities) operated by, and with the entire proceeds inuring to, States and political subdivisions thereof, such as counties and cities, or the United States, and agencies and instrumentalities of the foregoing. The new exemption does not encompass spectator facilities, such as zoos and aquariums.

SECTION 403. EFFECTIVE DATE OF AMENDMENTS RELATING TO ADMISSIONS

This section of the bill provides that the amendments made by sections 401 and 402 shall apply to amounts paid on or after the first day of the first month which begins more than 10 days after the date of the enactment of the act for admissions on or after such first day.

SECTION 404. TAX ON CABARETS, ROOF GARDENS, ETC.

This section amends section 1700 (e) (1) of the Internal Revenue Code to exempt from the cabaret tax bona fide dance halls, ballrooms, and other similar places where the serving or selling of food, refreshments, or merchandise is merely incidental to the music and dancing privileges furnished unless the conduct of the place is such as to bring it within the normal concept of a roof garden, cabaret, or similar place. This determination will be made by reference to the over-all operation of the establishment, including such factors as the relative income from the several activities over a period of time, the relative portion of space devoted to the various activities, the type of refreshments served or sold, the scope and character of the entertainment furnished, and the hours of operation.

The purpose of this amendment is to make it clear that the principles set forth by the district court in the case of *Geer v. Birmingham* (88 F. Supp. 189) are controlling in the determination of whether the establishment involved is operating as a cabaret or as a dance hall and to avoid the broad construction placed upon the statute in the case of *Avalon Amusement Corporation v. United States* (165 F. 2d 653) and in the court of appeals decision reversing the decision of the district court in the *Geer* case (*Birmingham v. Geer*, 185 F. 2d 82), which require that dance halls and similar establishments be taxed as cabarets, even though the serving or selling of food, refreshments, or merchandise is merely incidental.

The amendment made by this section shall take effect at 10 a. m., on the first day of the first month which begins more than 10 days after the date of the enactment of this bill.

PART II—TAX ON CIGARETTES

SECTION 421. TAX ON CIGARETTES

Subsection (a) of this section amends section 2000 (c) (2) of the Internal Revenue Code (relating to the tax on cigarettes) to increase the rate of tax with respect to cigarettes weighing not more than three pounds per thousand from \$3.50 to \$4 per thousand.

Subsection (b) provides that the amendment by subsection (a) shall take effect on the first day of the first month which begins more than 10 days after the date of enactment of this bill.

SECTION 422. FLOOR STOCKS TAX ON CIGARETTES

This section amends section 2000 of the Internal Revenue Code (relating to the tax on tobacco, etc.) by adding a new subsection (f) which imposes a floor stocks tax equal to the increase in the tax made

by section 421 (a) with respect to cigarettes weighing not more than three pounds per thousand which are held for sale on the day the increased rate of tax on such cigarettes takes effect.

PART III—RETAILERS' EXCISE TAXES

SECTION 431. TAX ON LIGHTERS

This section amends section 2400 of the Internal Revenue Code so as to subject mechanical lighters for cigarettes, cigars, or pipes, to the retailers' excise tax of 20 percent as provided by sections 1650 and 2400 of the code.

SECTION 432. RETAILERS' EXCISE TAX ON TOILET PREPARATIONS

This section amends section 2402 (a) of the Internal Revenue Code (relating to the tax on toilet preparations) by adding at the end thereof a new sentence to exempt from the tax thereby imposed toilet articles intended to be used or applied only in the care of babies. 'The determination of whether toilet articles are intended to be used or applied only in the care of babies will be made only by reference to the advertising with respect to, and the labeling contained on, the article. If an article is advertised and labeled as being for use in the care of babies and is not advertised or labeled as usable by persons other than babies the article is exempt from tax even though the particular purchaser buys it for adult use. On the other hand, an article which is represented by advertising or labeling as fit for adult use in addition to use in the care of babies will not be exempt from tax even though sold to a purchaser who intends to use the article only in the care of babies.

Under existing law toilet articles sold to a beauty parlor, barber shop, or similar establishment for use in the operation thereof are taxable when sold. Articles sold to such establishments for resale are not taxable until sold by them. Articles procured by such establishments tax-free for resale and actually used in operation of the place are taxable when first set apart for such use. Under the amendment made by section 432 (b) to section 2402 (b) of the code toilet articles sold to such establishments, for use in the operation thereof, are exempted from tax. The resale of toilet articles at retail by such establishments will continue to be taxable, as under present law.

SECTION 433. EFFECTIVE DATE OF PART III

This section provides that the amendments made by part III (relating to retailers' excise taxes) shall apply only to articles sold on or after the first day of the first month which begins more than 10 days after the date of enactment of the act.

PART IV—DIESEL FUEL

SECTION 441. DIESEL FUEL USED IN HIGHWAY VEHICLES

Subsection (a) of this section adds to the Internal Revenue Code a new chapter, entitled "Chapter 20—Diesel Fuel," which imposes a tax of 2 cents a gallon upon any liquid not taxed under section 3412 (relating to gasoline, naphtha, etc.) sold or used by any person as a fuel in a Diesel-powered highway vehicle. The same fuel oil which is used in Diesel-powered highway vehicles is also manufactured and marketed for use in heating plants, electric power plants, and for other industrial and farm purposes. For this reason the tax is imposed upon Diesel fuel sold to any owner, lessee, or operator of a Diesel-powered highway vehicle for use as a fuel in such vehicle, and will be collected from any person who makes such a sale of Diesel fuel. However, provision is also made for collecting the tax from a person who acquires fuel in such a manner that the seller thereof does not know that it is to be used as fuel for a Diesel-powered highway vehicle and for that reason sells the fuel tax-free. In such a case, the person using the fuel in a Diesel-powered highway vehicle will be required to make a return and remit the tax. Conversely, if fuel oil is sold for use in a diesel-powered highway vehicle and is later used in some nontaxable manner, for example, in a farm tractor or as a heating fuel, a tax refund may be allowed.

Subsection (b) provides that the amendment made by subsection (a) shall take effect on the first day of the first month which begins more than 10 days after the date of the enactment of the act. Thus, sales of fuel oil on or after such date for use in Diesel-powered highway vehicles will be taxable. Likewise, the tax will be due on all stocks of fuel purchased free of tax if used by the purchaser thereof on or after such effective date in Diesel-powered highway vehicles.

PART V—LIQUOR

SECTIONS 451, 452, AND 453. DISTILLED SPIRITS, WINES, AND FERMENTED MALT LIQUORS

Sections 451, 452, and 453 increase the rates of tax on distilled spirits, wines, and fermented malt liquors. The proposed increases are as follows: Distilled spirits, from \$9 to \$10.50 per proof gallon; still wines not over 14 percent alcohol, from 15 to 17 cents per gallon; still wines over 14 percent and not over 21 percent of alcohol, from 60 to 67 cents per gallon; still wines over 21 percent and not over 24 percent of alcohol, from \$2 to \$2.25 per gallon; sparkling wines, from 15 to 17 cents per one-half pint; artificially carbonated wines, from 10 to 12 cents per one-half pint; liqueurs, cordials, and similar compounds containing fortified sweet wine or fortified fruit or berry wines, from 10 to 12 cents per one-half pint; fermented malt liquors, from \$8 to \$9 per barrel. These sections also impose equalizing floor-stocks taxes on tax-paid distilled spirits and tax-paid wines held for sale or for use in the manufacture of any article intended for sale on the date the increased rates become effective; and on all tax-paid fermented malt liquors held for sale on the date the increased

rate becomes effective. Provisions similar to those contained in the Revenue Act of 1943 are made for the filing of floor-stocks tax returns and for the payment of such tax. Section 451 also increases the rate of tax on imported perfumes containing distilled spirits from \$9 to \$10.50 per wine gallon.

SECTION 454. CLERICAL AMENDMENT

This section amends section 1650, relating to war-tax rates of certain miscellaneous taxes, by striking out the provisions thereof relating to distilled spirits, imported perfumes containing distilled spirits, wines, and fermented malt liquors.

SECTION 455. EFFECTIVE DATE OF PART V

This section provides that the amendments made by this part shall take effect on the first day of the first month which begins more than 10 days after the date of enactment of the act.

PART VI—OCCUPATIONAL TAXES

SECTION 461. DEALERS IN LIQUORS

This section increases the rates of occupational taxes on wholesale dealers in liquors, retail dealers in liquors, and wholesale dealers in malt liquors. The proposed increases are as follows: Wholesale dealers in liquors, from \$110 to \$200; retail dealers in liquors, from \$27.50 to \$50; and wholesale dealers in malt liquors, from \$55 to \$100.

SECTION 462. DRAW-BACK IN THE CASE OF DISTILLED SPIRITS USED IN THE MANUFACTURE OF CERTAIN NONBEVERAGE PRODUCTS

Subsection (a) of this section increases the rate of the draw-back authorized by section 3250 (1) (5) of the code from \$6 to \$9.50 per proof gallon. Section 3250 (1) (5) authorizes the allowance of draw-back of distilled spirits taxes, under certain circumstances, to persons who use fully tax-paid distilled spirits of domestic production in the manufacture of certain nonbeverage products.

Subsection (b) makes the increased rate of draw-back applicable only with respect to distilled spirits used on or after the first day of the first month which begins more than 10 days after the date of the enactment of the act, and on which the internal-revenue tax was paid at the rate of \$10.50 specified in section 2800 (a) (1) of the code or at a rate equivalent to such rate.

Subsection (c) amends section 309 (c) of the Revenue Act of 1943 to provide that subsection (b) of section 309 of that act shall not be applicable in any case in which draw-back is allowed at the rate of \$9.50 under section 3250 (1) (5) of the code, as amended by the Revenue Act of 1951. Section 309 (b) of the Revenue Act of 1943 authorizes draw-back at the rate of \$6 per proof gallon with respect to distilled spirits on which the internal revenue tax was paid at the war-tax rate or at a rate equivalent to the war-tax rate.

SECTION 463. TAX ON COIN-OPERATED GAMING DEVICES

This section amends section 3267 (a) of the Internal Revenue Code to increase the present rate of the special (occupational) tax thereby imposed with respect to coin-operated gaming devices from \$150 to \$250 per year.

SECTION 464. TAX ON BOWLING ALLEYS AND BILLIARD AND POOL TABLES

Subsection (a) of this section amends section 3268 of the Internal Revenue Code to increase the present rate of the special (occupational) tax thereby imposed with respect to bowling alleys and billiard and pool tables from \$20 to \$25.

Subsection (b) is a clerical amendment which amends section 1650 (relating to war-tax rates of certain miscellaneous taxes) by striking out the provisions thereof relating to bowling alleys and billiard and pool tables.

SECTION 465. EFFECTIVE DATE OF PART VI

This section provides that the amendments made by sections 461, 463, and 464 shall take effect on the first day of the first month which begins more than 10 days after the date of the enactment of this act. In the case of the year beginning July 1, 1951, where the trade or business on which the occupational tax is imposed was commenced prior to the first day of the month specified in the preceding sentence, i. e., the month which begins more than 10 days after the date of the enactment of the act, the increase in the tax resulting from the amendments made by sections 461, 463, and 464 shall be reckoned proportionately from the first day of such first month to and including the 30th day of June following and shall be due on, and shall be payable on or before, the last day of such specified month.

PART VII—WAGERING

SECTION 471. WAGERING TAXES

This section adds to the Internal Revenue Code a new chapter entitled "Chapter 27A—Wagering Taxes," which imposes on wagers a tax equal to 10 percent of the amount thereof, and a special (occupational) tax of \$50 per year on each person who is liable for the tax on wagers or who is engaged in receiving wagers for or on behalf of any person so liable. For a detailed discussion of these new taxes see the explanation beginning on page 67 in the general discussion section of this report.

SECTION 472. EFFECTIVE DATE OF PART VII

This section provides that the tax imposed on wagers by subchapter A of chapter 27A of the Internal Revenue Code, as added by section 471, shall apply only with respect to wagers placed on or after the first day of the first month which begins more than 10 days after the

date of enactment of the act. The section further provides that the occupational tax imposed by subchapter B of chapter 27A of the code, as added by section 471, shall not be payable with respect to any period prior to the first day of the first month which begins more than 10 days after the date of the enactment of the act.

PART VIII—MANUFACTURERS' EXCISE TAXES

SECTION 481. AUTOMOBILES, TRUCKS, AND PARTS OR ACCESSORIES

Subsections (a) and (b) of this section respectively amend section 3403 (a) of the Internal Revenue Code to increase the manufacturers' excise tax from 5 to 8 percent on automobile trucks and other items included in section 3403 (a) and on passenger automobiles and all items now included in section 3403 (b) from 7 to 10 percent, except chassis and bodies for house trailers (including parts or accessories therefor sold on or in connection therewith or with the sale thereof), which will continue to be taxed at the rate of 7 percent.

Subsection (c) amends section 3403 (c) of the code to increase the tax on parts or accessories for any of the articles enumerated in section 3403 (a) and (b) of the code from 5 to 8 percent.

Subsection (d) adds a new sentence at the end of such section 3403 (c) to provide that in determining the sale price of a rebuilt automobile part or accessory, there shall be excluded from the price, in accordance with regulations prescribed by the Secretary, the value of a like part or accessory accepted in exchange.

Subsection (e) is a technical amendment of section 3403 (e) to provide rates of credit allowable to manufacturers for tax-paid tires, inner tubes, or automobile radio or television receiving sets used in the manufacture of automobiles, etc., equal to the rates of tax imposed on automobiles, etc., by this act.

Subsection (f) amends section 3443 (a) (3) (A) by adding a new clause (vi) to provide a credit or refund to a manufacturer of automobile parts or accessories when a part or accessory (other than spark plugs, storage batteries, leaf springs, coils, timers, and tire chains) is resold for use as a replacement part for farm equipment. Under existing procedure a farm equipment manufacturer may buy for use as component parts of such equipment, parts or accessories primarily designed for automotive use (other than spark plugs, storage batteries, leaf springs, coils, timers, and tire chains) under a certificate of intent to use them as original equipment, but may not buy automobile parts or accessories tax-free for resale for repair or replacement purposes on nontaxable articles. Thus, under the amendment a credit or refund is allowable with respect to those parts or accessories which under existing law and procedures may be sold tax-free to the manufacturer of the original nontaxable equipment.

The credit or refund may not be allowed under section 3443 (a) (3) (A) (vi) with respect to spark plugs, storage batteries, leaf springs, coils, timers, and tire chains or with respect to any part or accessory taxable under section 3403 (c) resold for use as repair or replacement parts for any of the articles taxable under section 3403 (a) and (b) of the code.

Subsection (g) provides that the amendment made by subsection (f) shall be effective with respect to articles purchased by the user thereof on or after the first day of the first month which begins more than 10 days after the date of the enactment of the act.

Subsection (h) of this section amends section 3400 (a) of the code to exempt from the tax thereby imposed on tires those of all-rubber construction without fabric or metal reinforcement, whether hollow center or solid, if they are not more than 20 inches in diameter and not more than $1\frac{3}{4}$ inches in cross section, and those of extruded tiring with internal wire fastening agent.

SECTION 482. NAVIGATION RECEIVERS SOLD TO THE UNITED STATES

This section deals with "communication, detection, or navigation receivers of the type used in commercial, military, or marine installations" hereafter in this paragraph referred to as "navigation receivers." Subsection (a) amends section 3404 (a) of the Internal Revenue Code to exempt from the tax thereby imposed on radio and television receiving sets, etc., the sale of navigation receivers to the United States for its exclusive use. Subsection (b) amends section 3404 (b) of the code to exempt from the tax thereby imposed on component parts of radio and television receiving sets, etc., the sale of any article for use by the vendee as material in the manufacture or production of, or as a component part of, navigation receivers to be sold by him to the United States for its exclusive use. Subsection (c) amends section 3443 (a) (1) of the code to allow a manufacturer or producer of navigation receivers a credit or refund of tax paid on articles taxable under section 3404 (b) purchased for use by him in the manufacture or production of, or as a component part of, navigation receivers if such navigation receivers have been sold by him to the United States for its exclusive use. Subsection (d) amends section 3443 (a) (3) (A) of the code to allow a credit or refund to a manufacturer, producer, or importer of navigation receivers in the amount of tax paid by him with respect to the sale thereof if he has in his possession such evidence as regulations may require that such navigation receivers have been resold to the United States for its exclusive use. Subsection (e) amends section 3444 (b) of the code to exempt from the tax thereby imposed on the use of taxable articles by the manufacturer, producer, or importer thereof, articles taxable under section 3404 (b) used in the manufacture or production of, or as a component part of, navigation receivers sold to the United States for its exclusive use.

SECTION 483. REPEAL OF TAX ON CERTAIN SPORTING GOODS; INCREASE IN TAX ON REMAINING SPORTING GOODS

This section amends section 3406 (a) (1) of the Internal Revenue Code to exclude from the tax on sporting goods the following named items:

- Basketballs
- Boxing gloves and other boxing equipment
- Cricket balls and bats
- Fencing equipment

Footballs and other football equipment
Gymnasium equipment and apparatus
Hockey equipment
Indoor baseballs and other indoor-baseball equipment
Lacrosse equipment
Mass balls
Push balls
Skates
Snow toboggans and sleds
Soccer balls
Softballs and other softball equipment
Track hurdles
Vaulting equipment
Volleyballs and other volleyball equipment
Water-polo equipment
Wrestling head-harness

On the items not so excluded, the tax is raised from 10 percent to 15 percent.

SECTION 484. ADDITION OF CERTAIN ITEMS TO THE TAX ON ELECTRIC, GAS, AND OIL APPLIANCES; REMOVAL OF TAX ON ELECTRIC HEATING PADS

This section amends section 3406 (a) (3) of the Internal Revenue Code (relating to the tax on electric, gas, and oil appliances) to remove electric heating pads from the application of the tax and to include in the list of articles subject to the tax at the rate of 10 percent electric sheets and spreads and the following appliances of the household type: Electric belt-driven fans; electric or gas clothes driers; electric door chimes; electric dehumidifiers; electric dishwashers; electric floor polishers and waxers; electric food choppers and grinders; electric hedge trimmers; electric ice-cream freezers; electric mangles; electric motion- or still-picture projectors; electric pants pressers; electric shavers; and power lawn mowers.

SECTION 485. ADJUSTMENTS OF TAX RATES ON PHOTOGRAPHIC APPARATUS AND FILM; REPEAL OF TAX ON CERTAIN ITEMS

Subsection (a) of this section amends section 3406 (a) (4) of the Internal Revenue Code to reduce the rate of tax on cameras and camera lenses from 25 to 20 percent and to increase the rate of tax on unexposed photographic film from 15 to 20 percent, thus providing, on and after the effective date specified in section 489 of the act, an equal rate of tax for all articles taxable under such section 3406 (a) (4). This section also will exclude the following items from the existing tax:

Photographic apparatus and equipment (other than certain cameras and lenses); unexposed photographic film not in rolls; X-ray cameras; still-camera lenses having a focal length of more than 120 millimeters; motion-picture camera lenses having a focal length of more than 30 millimeters; film more than 150 feet in length; and film more than 25 feet in length and more than 30 millimeters in width.

However, if any person acquires film not subject to tax and sells it in, or in connection with a sale thereof reduces it to, such form and dimensions that it would be taxable if sold by a manufacturer, pro-

ducer, or importer, then such person shall be considered the manufacturer of the film so sold by him. X-ray film, and cameras weighing more than 4 pounds exclusive of lens and accessories, continue to be tax-exempt.

With respect to photoflash or other bulbs held in floor stocks on the effective date specified in section 489 of the act, section 485 (b) provides for a credit or refund (without interest) to the manufacturer or producer of such bulbs of the manufacturers' excise tax imposed under section 3406 (a) (4). The credit or refund is to be allowed only (1) if claim therefor is filed with the Secretary prior to the expiration of 3 months after the effective date specified in section 489 of the act and (2) to the extent that the manufacturer has reimbursed the person holding the photoflash or other bulbs in floor stock for the elimination of the tax on such effective date. The Secretary is authorized to prescribe necessary regulations pertaining to such credits or refunds, and no manufacturer or producer will be entitled to a credit or refund unless he has in his possession such evidence respecting inventories of such bulbs as to which he has made reimbursement of tax as the regulations prescribe. No credit or refund is to be allowed for any bulb held by any person for sale which was purchased by such person as a component part of any other article.

The provision for credit or refund applies to photoflash or other bulbs held for sale on the effective date specified in section 489 or held for use on such date in the manufacture or production of any article intended for sale.

SECTION 486. IMPOSITION OF TAX ON MECHANICAL PENCILS AND FOUNTAIN AND BALL-POINT PENS

This section adds to chapter 29 of the Internal Revenue Code a new section entitled "Sec. 3408. Tax on Mechanical Pencils and Fountain and Ball-Point Pens." Subsection (a) of section 3408 imposes a manufacturers' excise tax of 20 percent of the price for which mechanical pencils, fountain pens, and ball-point pens are sold by the manufacturer, producer, or importer thereof.

Subsection (b) of section 3408 provides that the 20 percent manufacturers' excise tax will not apply to the sale of any mechanical pencil, fountain pen, or ball-point pen if such pen or pencil will be subject to the 20 percent retailers' tax under section 2400 of the code (relating to the tax on jewelry, etc.).

SECTION 487. REPEAL OF TAX ON ELECTRICAL ENERGY

Subsection (a) of this section repeals section 3411 of the Internal Revenue Code (relating to the tax on electrical energy for domestic or commercial consumption) and certain related sections in the nature of cross references, namely, sections 3441 (d), 3444 (b), and 3447 (c).

Subsection (b) provides in paragraph (1) that except as provided in paragraph (2), such repeal shall apply to electrical energy sold on or after the first day of the first month which begins more than 10 days after the date of the enactment of the act, and in paragraph (2) that in the case of a sale of electrical energy which is billed to the customer for a period beginning before such effective date and ending on or after such effective date, the provisions of subsection (a) shall apply

only to that portion of the amount billed for the electrical energy sold during the entire period which the number of days in such period beginning with the effective date bears to the total number of days in such entire period. This section shall not apply to electrical energy sold before such effective date for which a bill was rendered prior thereto.

SECTION 488. TAX ON GASOLINE

Subsection (a) of this section amends section 3412 (a) of the Internal Revenue Code to increase the tax on gasoline from $1\frac{1}{2}$ to 2 cents a gallon.

Subsection (b) adds a new subsection (f) to section 3412 of the code to impose a floor-stocks tax on gasoline subject to tax under such section which, on the date section 488 becomes effective, is held and intended for sale, at the rate of one-half cent per gallon. It is provided that such floor-stocks tax shall not apply to gasoline in retail stocks held at the place where intended to be sold at retail or to gasoline held for sale by the manufacturer, producer, or importer of such gasoline.

SECTION 489. EFFECTIVE DATE OF PART VIII

This section provides that except as otherwise expressly provided in this part, the amendments made by this part shall take effect on the first day of the first month which begins more than 10 days after the date of the enactment of this act.

PART IX—MISCELLANEOUS EXCISE TAX AMENDMENTS

SECTION 491. REDUCTION OF TAX ON TELEGRAPH DISPATCHES

Subsection (a) of this section amends section 3465 (a) (1) (B) of the Internal Revenue Code so as to reduce the present tax rate of 25 percent to 20 percent on amounts paid within the United States for each domestic telegraph, cable, or radio dispatch or message.

Subsection (b) is a clerical amendment which amends section 1650 (relating to war tax rates of certain miscellaneous taxes) by striking out the provisions thereof relating to domestic telegraph, cable, or radio dispatches.

Subsection (c) fixes the time when the amendments made by subsections (a) and (b) shall take effect in relation to the "rate reduction date," which is defined in subsection (e) as the first day of the first month which begins more than 10 days after the date of enactment of the act. Pursuant to subsection (e) the amendments apply with respect to amounts paid on or after the rate reduction date for services rendered on or after such date. Subsection (d) provides that the amendments do not apply with respect to amounts paid pursuant to bills rendered prior to the rate reduction date. The amendments apply with respect to amounts paid pursuant to bills rendered on or after the rate reduction date for services for which no previous bill was rendered, except with respect to such services as were rendered more than 2 months before such date. Services rendered more than 2 months before such date are governed by the provisions of sections

1650 and 3465 of the Internal Revenue Code in effect at the time such services were rendered.

SECTION 492. EXEMPTION OF FISHING TRIPS FROM TAX ON TRANSPORTATION

Subsection (a) of this section amends section 3469 (b) of the Internal Revenue Code to add to the exemptions from the tax on the transportation of persons thereby granted, an additional exemption covering amounts paid for transportation by boat for the purpose of fishing from such boat.

Subsection (b) provides that the amendment made by subsection (a) shall apply to amounts paid on or after the first day of the first month which begins more than 10 days after the date of the enactment of this act for transportation on or after such first day.

SECTION 493. TRANSPORTATION OF OIL BY WATER

Subsection (a) of this section amends chapter 30 of the Internal Revenue Code by adding a new subchapter F imposing a tax, under subsection (a) thereof, equal to 3 percent of the fair charge for the transportation of crude petroleum and liquid products thereof by water (1) when no charge is made for such transportation, or (2) when (in any transaction not at arm's length) the charge is less than the fair charge for such transportation. Provision is made that the fair charge shall be (1) the charge made by persons performing like transportation for hire as determined by the Secretary, or (2) if no such charge exists a reasonable charge for such transportation as determined by the Secretary. These provisions are similar to the provisions of section 3460 of the code relating to transportation of oil by pipeline.

Exemption from the tax is provided for in the case of transportation within the premises of a producing property, refinery, bulk plant, terminal, or gasoline plant. Also, no tax will apply to the transportation of crude petroleum or liquid products thereof used or consumed in the operation of a vessel or during a voyage without unloading after once being placed aboard the vessel. Transportation by water of crude petroleum or liquid products thereof by the United States, any State, Territory of the United States or the District of Columbia on vessels owned or operated by such governments is not taxable if such products are for the exclusive use of the government transporting it. This exemption will not apply if the transportation is furnished by another or if the products transported are not for the exclusive use of the government, regardless of by whom transported. Transportation by an individual of petroleum products for his personal use and not for business purposes is also exempted.

Subsection (b) of this section is a technical amendment of section 3475 (a) of the code to provide that transportation of oil by water for less than the fair charge (other than in the case of an arm's-length transaction) shall be taxable under the new subchapter F and not under section 3475 (a).

Subsection (c) of this section provides that the tax shall apply only with respect to transportation which begins on or after the first day of the first month which begins more than 10 days after the date of enactment of the act.

SECTION 494. ARTICLES FROM FOREIGN TRADE ZONES

This section will prevent the receipt in customs territory of the United States of the articles specified in Internal Revenue Code sections 2000 (c) (2) (cigarettes), 2800 (a) (distilled spirits), 3030 (a) (wines), and 3150 (a) (fermented liquors) which were in foreign-trade zones when the increase in the tax on such articles became effective by this act, until there is collected the full amount of all taxes which would have been imposed upon such articles if they had been subjected to tax in customs territory of the United States on such effective date.

Subsection (a) provides that with respect to such articles on which the internal-revenue taxes have been determined, pursuant to section 3 of the act of June 18, 1934, as amended by the act of June 17, 1950 (19 U. S. C. 81c), and which on or after the effective date of the rates of tax imposed on such articles by the Revenue Act of 1951 are brought from foreign-trade zones into customs territory of the United States, there shall be levied, assessed, collected, and paid on such articles, in addition to the tax so determined, an additional tax at rates equal to the increases in rates of tax made applicable to such articles by this act.

Under the first proviso of section 3 of the act of June 18, 1934, as amended, the collector of customs now has authority, upon request, to take under supervision any lot or part of a lot of foreign merchandise in a foreign-trade zone and cause it to be appraised and taxes determined and duties liquidated thereon. It may thereafter be sent into customs territory upon the payment of such liquidated duties and determined taxes. Inasmuch as such proviso authorizes a finding of taxes and duties only once and a finding once made would thereafter govern the dutiable and taxable status of the foreign merchandise whenever it was sent into customs territory, it is necessary to provide affirmatively for the levy, assessment, collection, and payment (in addition to the tax determined prior to the effective date of the rate of tax imposed on the named articles) of the additional tax at rates equal to the increases in rates of tax made applicable to such articles by section 494 (a) of the Revenue Act of 1951.

It is further provided that with respect to such imported articles, the tax imposed by section 494 (a) shall be collected, paid, and accounted for at the same time and in the same manner as the tax on such articles is collected, paid, and accounted for when brought from the foreign-trade zone into the customs territory.

Under the second proviso of section 3 of the act of June 18, 1934, as amended, certain articles may be taken into a foreign-trade zone from customs territory and may thereafter be brought back to customs territory free of duty and tax. With respect to cigarettes, distilled spirits, wines, and fermented liquors which were taken into such zone pursuant to such second proviso prior to the effective date of the rates of tax imposed on such articles by this bill, subsection (b) of section 494 provides that when, after such effective date, they are returned (without loss of identity) from such foreign-trade zones to customs territory, there shall be levied, assessed, collected, and paid on such articles an additional tax at rates equal to the increases in rates of tax applicable to such articles by the Revenue Act of 1951, and that the additional tax so imposed shall be collected, paid, and accounted for at the same time and in the same manner as if such articles had been taken into the foreign-trade zone free of tax.

TITLE V—MISCELLANEOUS PROVISIONS AND AMENDMENTS

SECTION 501. EXEMPTION OF CERTAIN ORGANIZATIONS FROM INCOME TAX FOR PRIOR TAXABLE YEARS

Section 501 of the bill adds a subsection at the end of section 302 of the Revenue Act of 1950 to provide that for any taxable year beginning prior to January 1, 1951, an organization (which term includes a trust) operated for the primary purpose of carrying on a trade or business for profit, no part of the net earnings of which inures to the benefit of any private shareholder or individual and all of the net earnings of which inure to the benefit of an educational organization which normally maintains a regular faculty and curriculum and normally has a regularly organized body of pupils or students in attendance at the place where its educational activities are regularly carried on, shall not be denied exemption from taxation under any paragraph of section 101 of the code on the ground that it is carrying on a trade or business for profit.

An example of the application of the amendment would be the case of a feeder corporation whose business is the manufacture of automobiles for the ultimate profit of a university.

SECTION 502. EXCESS-PROFITS CREDIT BASED ON INCOME

The amendments made by this section of the bill relate to the computation of the excess profits credit of a corporation upon the basis of income under the provisions of section 435 (a) of the code. Paragraph (1) of subsection (a) of section 502 provides that the percentage of average base period net income taken into account in determining the excess profits credit on income under section 435 (a) shall be reduced from 85 percent of such average base period net income to 75 percent thereof. This reduction is made effective, under subsection (b) of section 502, with respect to taxable years ending after December 31, 1951.

Paragraph (2) of subsection (a) adds to section 435 (a) of the code a new paragraph (4) which provides for the computation of the portion of the average base period net income which is to be used in computing the excess profits credit based on income in the case of a taxable year beginning in 1950 and ending in 1951. The new paragraph (4) provides that in the case of such taxable year the amount to be used, for the purposes of section 435 (a), in lieu of 85 percent of the average base period net income, shall be the sum of—

- (1) that portion of 85 percent of the average base period net income which the number of days in the taxable year prior to January 1, 1951, bears to the total number of days in such taxable year, and

- (2) that portion of 75 percent of the average base period net income which the number of days in such taxable year after December 31, 1950, bears to the total number of days in such taxable year.

SECTION 503. ESTATE AND GIFT TAX TREATMENT OF UNITED STATES BONDS HELD BY CERTAIN NON-RESIDENT ALIENS

This section amends section 861, relating to the computation of net estate of a decedent nonresident not a citizen of the United States, and section 1000 (b), relating in part to application of gift tax in the case of a transfer by a nonresident alien, by the addition of specific provisions defining the treatment for purposes of estate tax and gift tax of certain obligations of the United States held or transferred by a nonresident alien not engaged in business in the United States.

The United States Supreme Court, as early as 1900, established the principle that a statutory provision which in general terms exempts property from taxation applies only to a direct tax on such property and does not apply to excise taxes, such as the estate tax or the gift tax which is imposed not on the property itself but on the transfer of the property. *Murdock v. Ward* (178 U. S. 139); *Plummer v. Coler* (178 U. S. 115). However, the Courts of Appeals for the Second and Third Circuits have, in a number of recent cases, held that section 4 of the Victory Liberty Loan Act of March 3, 1919 (40 Stat. 1311; 30 U. S. C. 750), exempted United States Government bonds owned by a nonresident alien individual, not engaged in business within the United States, from estate tax as well as from direct taxes. See *Estate of Karl Jandorf v. Commissioner* (C. A. 2, 1948), 171 F. (2d) 464; *Estate of Irene DeGuebriant v. Commissioner* (C. A. 2, 1951), 186 F. (2d) 307; and *Pennsylvania Co. for Banking and Trusts (Estate of Henry Wallace Burne) v. United States* (C. A. 3, 1950), 185 F. (2d) 125.

Your committee believes that United States obligations in the hands of a nonresident alien not engaged in business in the United States are and should be subject to the principle of *Murdock v. Ward* and *Plummer v. Coler*; accordingly subsection (a) adds a new subsection (c) to section 861 of the code affirmatively so providing in the case of the estate tax. However, in the interest of equity, two exceptions are provided to this rule. First, United States obligations issued before March 1, 1941, are not to be included in the gross estate of a deceased nonresident alien who was not engaged in business in the United States since such issues are exempt under present Treasury regulations. Secondly, the amendment expressly provides that such obligations issued on or after March 1, 1941, are to be included in the gross estate of such a decedent only if the decedent dies after the date of the enactment of the bill.

Subsection (b) of this section is designed to provides a similar result in the case of the gift tax, except that the amendment does not concern itself with gifts made on or before the date of the enactment of the bill. Under the amendment, a gift of such obligations made after the date of the enactment of the bill, by a nonresident alien not engaged in business in the United States, will be subject to the gift tax only if such obligations were issued on or after March 1, 1941. As to gifts made on or before the date of the enactment of the bill, the amendment does not affect any liability for gift tax which may exist under present law, and is not intended to disturb the rule of

existing gift tax regulations which exempts from tax the transfer of such obligations issued before March 1, 1941.

SECTION 504. REORGANIZATION PLAN NO. 26 OF 1950

Under this section the applicable provisions of Reorganization Plan No. 26 of 1950, respecting the Department of the Treasury, particularly section 1 (a) of such plan, transferring certain functions to the Secretary of the Treasury, shall apply to all functions stated to be vested by the Revenue Act of 1951 in any officer, employee, or agency of the Department of the Treasury, even though by such act any function is stated to be vested elsewhere than in the Secretary of the Treasury. Thus, as an example, a requirement in the Revenue Act of 1951 that returns shall be made and taxes due paid by the taxpayer to the collector for the district in which is located the taxpayer's principal place of business, or if he has no principal place of business in the United States, then to the collector at Baltimore, Md., will be given the same effect as a similar requirement in effect at the time when the plan became effective.

MINORITY VIEWS

This is the tax bill of the Democratic Party. The result of its enactment will be to increase taxes by over \$17,000,000,000 within the past 12 months. Its major provisions were agreed to by the Democratic members of the Ways and Means Committee in secret caucus without consultation or regard for the views of the Republican members of the committee. The star chamber proceedings which fathered much of this measure are repugnant to the American people and inimical to the entire Nation. It is a deplorable example of taxation without true minority representation.

We, the Republican Minority, serve notice on the Congress and the American people that the additional sources of revenue to pay for President Truman's \$71,600,000,000 expenditure budget for fiscal 1952 are not available under any sound tax program.

This is the crucial significance of H. R. 4473 which signals a dramatic warning to every American home that further inflation will soon be on the march again unless nonessential Government spending is reduced. The facts are plain for all to see:

Truman expenditure budget for fiscal 1952-----	\$71, 600, 000, 000
Net tax receipts for fiscal 1952 under existing law-----	\$60, 900, 000, 000
New taxes under H. R. 4473 for fiscal 1952---	5, 429, 000, 000
Total net revenue in fiscal 1952-----	66, 329, 000, 000
Deficit for fiscal 1952-----	—15, 271, 000, 000

¹ The estimates are those of the staff of the Joint Committee on Internal Revenue Taxation. The Treasury estimates net receipts of \$58.5 billion for fiscal 1952 which would increase the deficit to \$8 billion even after passage of this legislation.

Moreover the above figures are based on the assumption of passage of this legislation in its present form including the retroactive application back to January 1 for the entire corporate increase and an effective date of September 1, 1951, for the increased tax on individuals and for the excises.

President Truman's budget calls for actual cash expenditures of \$71,600,000,000 in fiscal 1952. The Congress should clearly understand, however, that the new obligational authority requested by President Truman amounts to a total of \$94,400,000,000 for fiscal 1952.

Keeping in mind that for fiscal years 1951 and 1952 the requested obligational authority for the Department of Defense alone exceeds by over \$50,000,000,000 the amount which will actually be spent in either of these years and that estimated expenditures for the military do not include replacement of equipment destroyed in Korea, it is clear that unless a drastic reduction in nonessential Government spending is made, the cash expenditure budget for fiscal 1953 may well exceed \$90,000,000,000—\$20,000,000,000 more than has been requested by President Truman for fiscal 1952.

Now confronted squarely with the established fact that even with this tax-increase bill we face a deficit of between \$5,300,000,000 and \$8,000,000,000 under the Truman expenditure budget in fiscal 1952, and an even greater deficit in fiscal 1953, what must we do?

There is only one answer—cut nonessential Government spending. In order, therefore, to reduce the proposed deficit to the lowest possible minimum we recommend that this Congress—

(1) effect an immediate 10 percent cut in the expenditures of nonmilitary appropriations (excluding funds devoted to the development of atomic energy for either civilian or military use); and

(2) eliminate all nonessential expenditures by the Military Establishment.¹

The responsibility for the dire and appalling prospect for our Nation's finances for fiscal 1952 rests squarely on President Truman. His own fiscal and tax advisers were unable to present to the committee any feasible administration tax program which would raise the necessary taxes to finance his budget in fiscal 1952 on a pay-as-we-go basis.

The Democratic members of the Ways and Means Committee in framing this bill could find none, and, as stated, most of the revenue which will be raised under H. R. 4473 will be derived from provisions in the bill which were not even determined through normal committee procedure. These include:

(1) Increasing everybody's direct income taxes 12½ percent;²

(2) Raising the regular tax on corporations to 52 percent retroactive to January 1—12 percentage points higher than during World War II;

(3) Making the 82-percent combined excess-profits tax applicable to 25 percent of normal corporate profits retroactive to January 1;

(4) Raising the limit on the over-all tax on corporations to 70 percent.

All the above provisions were determined by the Democratic members of the committee in a secret party caucus.

Republican members relied on an understanding with the majority members that no major change in the excess-profits tax law would be made at this time without at least first affording witnesses an opportunity to be heard and pending an opportunity by the staff of the Joint Committee on Internal Revenue Taxation and the Treasury Department to analyze the practical operation of this recently enacted and highly complicated law. On this point we call attention to the recommendations of Secretary Snyder to the committee during the public hearings:

Mr. CURTIS. Now, you make reference on page 16 to the changes in the structure of the excess profits. Just what is it you propose there?

¹ In recommending 10 percent cut in nonmilitary expenditures, I feel the minority should have pointed up that the cuts must be carefully sifted in such a procedure because of the very nature of certain expenditures. Many nonmilitary expenditures involve contractual obligations of the United States Government as well as atomic energy. They can involve reimbursable expenditures vitally connected to some phases of defense. I feel the recommendation sound if kept on a realistic basis and cuts carefully sifted.—HAL HOLMES.

² Except as limited by the effective top 94½ percent surtax rate and the 90 percent over-all ceiling.

Secretary SNYDER. That tax has just gone into effect. As it gets into operation, we will begin to find how it works. We may have to have some adjustments. Some inequities develop one way or the other as it goes into operation. We feel it too early to start to make recommendations until it has been in operation a while. We thought we could catch during the second phase some adjustments that will have to be made.

Mr. CURTIS. That develop in the light of the operation of the tax?

Secretary SNYDER. That is right.

Mr. CURTIS. It is nothing specific?

Secretary SNYDER. Not at this time.

This initial statement, of course, resulted in eliminating testimony of witnesses on proposed changes since public assurance was thus given that none were proposed.

If the Truman administration were really sincere in adopting a pay-as-we-go policy, as recommended by the Republicans, then, as a bare minimum the budget for fiscal 1952 would have been prepared only after a careful study had been made of the amount of additional revenue that could appropriately be raised in fiscal 1952. This procedure is so obviously a prerequisite to an honest effort to adopt a pay-as-we-go policy as to preclude discussion.

But it was not followed and President Truman's budget for fiscal 1952 was submitted to the Congress without any realistic regard to the availability of the necessary new taxes to support his program and without any real attempt at Government economy.

In the face of such casual and haphazard conduct of our Nation's finances in this period of crisis and sacrifice, President Truman's "dare" to the Congress to reduce his budget reflects a callous disregard for the preservation of the Nation's financial security unparalleled in American history.

APPROPRIATIONS TO DATE

That both President Truman's \$71,600,000,000 expenditure budget and \$94,400,000,000 new obligational authority budget for fiscal 1952 can be reduced has already been demonstrated by the House Appropriations Committee and the House itself.

Cuts made by the House thus far in President Truman's budget requests for appropriations amount to approximately \$1,240,000,000 in the seven bills which have been considered. (This figure includes estimated reductions under the so-called Jensen amendment directed at reducing Federal personnel.) This is a little more than 10 percent of budget estimates totaling about \$11,640,000,000 considered in these measures which include appropriations for the Treasury Department, Post Office Department, the Labor Department, Federal Security Agency, the Interior Department, independent offices, Agriculture Department, District of Columbia, and Army civil functions.

In terms of actual expenditures in fiscal 1952, however, the reductions made by the House amount to less than the total appropriation cuts and at best will probably be less than \$1 billion. This is a step in the right direction, but obviously it is not enough.

Bills remaining to be reported in the nondefense category include those for the State, Commerce, Justice Departments and the judiciary and the legislative establishments. In terms of new obligational authority (which excludes appropriations to liquidate prior contract

authorizations) budget estimates for these agencies amount to only about \$1,500,000,000. It is clear, therefore, that not too much more can be hoped for in these areas and that if a further reduction is to be made Congress will have to scrutinize closely and carefully the foreign aid and military authorization requests still to be considered by the House which total almost \$70,000,000,000.

DEFECTS IN H. R. 4473

GENERAL STATEMENT

The Truman administration is under the false illusion that pay-as-we-go means only a one-way street of ever-increasing expenditures paved with ever higher taxes. This illusion should be dispelled because excessive taxation will never cure inflation. The refusal by President Truman to curtail Government spending has been one of the major causes of the high cost of living.

A true pay-as-we-go program, as recommended by the Republicans, calls first for a reduction of Government spending and secondly, the imposition, insofar as necessary, of new taxes to pay for essential Government spending.

Taxes are already at the highest level in our history and are draining off more than 30 percent of our national income.³ The imposition of even higher taxes without first reducing Government spending is not only unconscionable, but can and will reduce the incentives for production and saving and thus defeat the very objectives of a balanced budget.

We call the attention of the Congress to the fact that as the result of the \$10,000,000,000 in new taxes already imposed by the Congress within the last 12 months the Federal Government is now running both a cash and budget surplus for this fiscal year. And yet despite this fact, wholesale prices are 20 percent higher than a year ago and 15 percent higher than at the time of the Korean invasion. The Consumers' Price Index of the Bureau of Labor Statistics reflecting this increase shows that the cost of living has risen from 170.2 percent a year ago to 185 percent today. It is clear, therefore, that higher taxes cannot do the job alone.

And it is just as clear that higher taxes if unwisely imposed can in themselves lead only to further inflation and rising cost of living. In our opinion this can be a tragic sequel of enactment of H. R. 4473 in its present form because it has apparently been framed by the Democratic members of the committee by scraping the bottom of the tax barrel, not for the purpose of halting inflation, but with a result of curtailing production and reducing savings, two of the most powerful weapons in our anti-inflationary arsenal.

As the result, H. R. 4473 is economically unwise in its major revenue-raising provisions, and is an unbalanced and lopsided tax bill.

INDIVIDUAL INCOME TAXES

In addition to all the higher indirect taxes imposed on the people by this legislation, H. R. 4473 increases the dollar amount of everybody's direct Federal income-tax bill by 12½ percent.⁴

³ National income \$260,000,000,000. Total Federal, State and local taxes \$79,300,000,000.

⁴ Except as limited by the effective top 94½ percent surtax rate and the 90 percent over-all ceiling.

The taking of taxes from our economic blood stream can well be likened to the taking of blood from the human body. If you take too much and too often the patient becomes weak and incapable of self support. Thus drained of his energy, he becomes a ward of the Federal Government. This is socialism.

An idea of the enormous increased "take" from direct individual income taxes by H. R. 4473 over the amount of taxes paid by the people of the country less than a year ago is shown by the following tables. The real impact of this burden must be measured in the light of the increased costs of living which have taken place in the past 12 months.

Single person, no dependents

Income after deductions but before exemptions	A year ago	Under H. R. 4473	Tax increase
\$600.....			
\$800.....	\$33	\$45	\$12
\$1,000.....	66	90	24
\$1,500.....	149	203	54
\$2,000.....	232	315	83
\$3,000.....	409	549	140
\$5,000.....	811	1,062	251
\$8,000.....	1,546	2,003	457
\$10,000.....	2,124	2,741	617
\$15,000.....	3,894	5,004	1,110
\$20,000.....	6,089	7,810	1,721
\$25,000.....	8,600	11,021	2,421
\$50,000.....	23,201	29,687	6,486
\$100,000.....	58,762	74,831	16,069

Married couple,¹ no dependents

Income after deductions but before exemptions	A year ago	Under H. R. 4473	Tax increase
\$1,000.....			
\$1,500.....	\$50	\$68	\$18
\$2,000.....	133	180	47
\$3,000.....	299	405	106
\$5,000.....	631	855	224
\$8,000.....	1,206	1,593	387
\$10,000.....	1,621	2,124	503
\$15,000.....	2,829	3,668	839
\$20,000.....	4,247	5,481	1,234
\$25,000.....	5,877	7,565	1,688
\$50,000.....	17,201	22,041	4,840
\$100,000.....	46,403	59,373	12,970

Married couple,¹ 2 dependents

Income after deductions but before exemptions	A year ago	Under H. R. 4473	Tax increase
\$2,000.....			
\$3,000.....	\$100	\$135	\$35
\$5,000.....	432	585	153
\$8,000.....	974	1,296	322
\$10,000.....	1,361	1,791	430
\$15,000.....	2,512	3,263	751
\$20,000.....	3,888	5,022	1,134
\$25,000.....	5,476	7,052	1,576
\$50,000.....	16,578	21,245	4,667
\$100,000.....	45,643	58,401	12,758

¹ Income earned by one spouse.

The effect of a flat 12½-percent increase is to make the marginal rate of tax and the tax burden on many taxpayers even higher than during World War II. This is particularly true of all single persons who do not qualify for the special head-of-the-household exemption and married couples in community-property States. In these cases the marginal rate will become higher than it was during World War II on all surtax net income over \$4,000.

The inevitable result of imposing this 12½-percent increase on top of the \$3,200,000,000 imposed within the past 12 months in direct individual income-tax liability will be that all taxpayers will be called upon to pay even higher income taxes, in addition to increased excise taxes.

We are opposed to this short-sighted policy of further soaking the lower-income groups tomorrow by destroying the middle- and upper-income brackets taxpayers today. This policy was followed with disastrous results by the Socialist Party in England and the result is that today the tax burden in England has to be shouldered by the lower-income groups.

An idea of the decrease on the take-home pay of various classes of taxpayers under the flat 12½-percent increase determined by the Democratic members in party caucus is shown in the following tables:

Take-Home Pay

SINGLE PERSON, NO DEPENDENTS

Income after deductions but before exemptions	Decrease in take-home pay	Percentage decrease in take-home pay
\$1,000.....	\$10	1.1
\$2,000.....	35	2.0
\$5,000.....	118	2.9
\$10,000.....	305	4.0
\$20,000.....	868	6.6
\$25,000.....	1,225	8.1
\$50,000.....	3,299	14.0
\$100,000.....	8,033	24.2

MARRIED COUPLE,¹ NO DEPENDENTS

\$2,000.....	\$20	1.1
\$5,000.....	95	2.2
\$10,000.....	236	2.9
\$20,000.....	609	4.0
\$25,000.....	841	4.6
\$50,000.....	2,449	8.1
\$100,000.....	6,597	14.0
\$500,000.....	29,613	30.7

MARRIED COUPLE,¹ 2 DEPENDENTS

\$3,000.....	\$15	0.5
\$5,000.....	65	1.5
\$10,000.....	199	2.4
\$20,000.....	558	3.6
\$25,000.....	784	4.2
\$50,000.....	2,361	7.6
\$100,000.....	6,489	13.5
\$500,000.....	29,571	30.3

¹ Income earned by 1 spouse.

As graphically shown by these tables the effect of the high 12½ percent increase on all individuals without any adequate cushion, as for example was provided in the 10 percent defense tax in the first Revenue Act of 1940, is to increase sharply the already steeply graduated rates in the middle and upper brackets. That the revenue to be gained from this policy is infinitesimal in comparison to the damage that will be done to the driving force of the American economy which, in the final analysis, is our only hope in preventing ruinous inflation is apparent from the following facts:

Even before enactment of H. R. 4473 confiscating all normal and surtax net income over \$10,000 will yield only an additional \$3.5 billion in taxes—or just enough to pay for the Truman budget for 18 days.

Confiscating all normal and surtax net income over \$26,000 will produce only an additional \$713 million in taxes—or just enough to pay for the Truman budget for 4 days.

Confiscating all normal and surtax net income over \$100,000 would yield only an additional \$39 million in taxes—or just enough to pay for the Truman budget for 5 hours.

After enactment of H. R. 4473 confiscating all taxable income over \$10,000 will yield only \$3 billion; over \$26,000 will yield only \$627 million; and over \$100,000 will yield only \$34 million.

Under existing tax rates the ratio of tax paid to take-home pay in the case of individuals with adjusted gross income of under \$5,000 is 9 percent and for those of \$5,000 and over it is 24 percent. Instead of maintaining this ratio, H. R. 4473 will increase the disproportion of these ratios.

High progressive rates, of course, have no deflationary effect because the tax is siphoned away from dollars that would be saved and not dollars which would be spent for consumers' goods. Any intelligent and realistic tax program, particularly a tax program which is intended to act as a brake on inflation, should encourage savings and discourage consumer consumption. H. R. 4473 fails entirely in meeting these objectives.

CORPORATE INCREASE

Less than 12 months ago the top corporate rate was 38 percent.

H. R. 4473 raises the regular corporate tax rate to 52 percent, extends the combined defense excess-profits tax rate of 82 percent to one-quarter of a company's normal earnings, and raises the over-all ceiling to 70 percent—all retroactive to January 1, 1951.

The effect of these provisions is to increase within less than a year the average tax on corporations from 37 cents on the dollar to 58 cents—an increase of more than 20 percentage points in the average tax rate or a 58 percent increase in corporate taxes. During the past 12 months corporate profits have increased approximately 20 percent.

The following table shows the amount of taxes payable at current level of corporate profits a year ago with the amount which will be paid after enactment of H. R. 4473.

[Dollars in millions.]

Taxable net income classes	Number of corporations	Taxable net income ²	Income and excess profits tax liabilities ¹		
			A year ago ²	H. R. 4473 ²	Percent increase
\$0 to \$25,000.....	292,491	\$2,161	\$470	\$648	37.9
\$25,000 to \$50,000.....	47,192	1,566	479	608	26.9
\$50,000 to \$100,000.....	30,477	2,018	772	1,027	33.0
\$100,000 and over.....	45,022	39,311	15,019	24,142	60.7
Total.....	415,182	45,056	16,740	26,425	57.9

¹ Based upon a level of profits before tax (Department of Commerce basis) of \$48 billion.² Excludes \$1,200 million of capital gains subject to alternative tax of 25 percent under present law.

An idea of the increased tax imposed by H. R. 4473 over the tax burden just 12 months ago on various size corporations, even though they have no increased earnings, is shown below.

Earnings	Tax a year ago	Tax under H. R. 4473	Percentage increase
\$100,000.....	\$38,000	\$54,000	42
\$200,000.....	76,000	113,500	49
\$500,000.....	190,000	292,000	54
\$1,000,000.....	380,000	589,500	55
\$10,000,000.....	3,800,000	5,944,500	56

A reduction in corporate disbursements to the stockholders in order to pay these increased taxes will have, of course, little, if any, effect on reducing consumer spending since these disbursements provide less than 5 percent of all personal income.

To the extent that the increased taxes are not reflected in a reduction of corporate disbursements to stockholders, the taxes under normal business conditions would probably result in reducing expenditures for new plants and equipment. Today, however, the expansion program is being carried on in order to produce equipment needed for the defense program and will, and indeed must, be undertaken regardless of higher corporate taxes. This means that corporations will finance new plants and equipment, if need be, by selling their holdings in Government securities or by borrowing. Both methods are, of course, inflationary.

The third result of higher corporate taxes is that a substantial part of the increased taxes is inevitably passed on to the rank and file of consumers through higher prices. This has historically been the case because taxes are essentially no different from other costs of doing business. It will be the case again.

By establishing an average corporate tax rate of 58 percent, H. R. 4473 in effect creates a 42-cent dollar for the entire corporate productive forces of the country. In many cases the value of the corporate dollar may be as little as 18 cents. This economically undesirable condition will exist in the case of corporations subject to the excess-profits tax. In these cases the yardstick by which managerial decisions are made is influenced by whether the regular corporate dollar or the cheap excess-profits tax dollar is involved. The result of H. R. 4473 is, however, not only to make the excess-profits tax dollar even cheaper but to make all corporate dollars worth only 42 cents. Under such conditions increased wages, higher prices for materials,

increased personnel, all become relatively cheap. There is little incentive for either controlled costs or efficiency of operation.

EXTENDING THE EXCESS-PROFITS TAX TO 25 PERCENT OF NORMAL CORPORATE EARNINGS

The Treasury Department recommended an increase to 55 percent in the corporate tax rate.

Although we were not permitted to attend the meeting during which the decision was made we judge that the Democratic members of the committee must have realized that a 55 percent regular corporate rate—15 percentage points higher than during World War II might seriously jeopardize the defense program and would impose an impossible tax load on small corporations.

But they reached not only the same but a worse result by the dishonest method of agreeing in their party caucus to tax 25 percent of a company's normal earnings at the 82 percent combined excess profits tax rate, and H. R. 4473 so provides.

The arbitrary extension of the excess-profits tax to 25 percent of normal profits completely defeats the objective of making the excess-profits tax apply to only profits derived from the defense program for which it was intended. This action, together with the increase in the ceiling relief provision from 62 percent to 70 percent will produce many serious inequities.

Take, for example, a corporation which is making \$50,000 today and has an excess-profits base-period income of \$50,000. As the result of taxing 25 percent of normal profits at the 82 percent defense profit rate the percentage increase in tax liability over present law for this corporation is 19.75 percent even though its earnings have not increased. In the case of a corporation with both earnings and a base-period income of \$500,000, the percentage increase over present law drops to 15.9 percent.

Moreover, if the same \$50,000 corporation should increase its earnings to \$75,000, the percentage tax increase over present law will be 13.3 percent. If on the other hand a \$100,000 base period income corporation has \$200,000 of current earnings from the defense program, its percentage tax increase is only 10.57 percent—approximately one-half of that of the \$50,000 corporation which has no increase in earnings over the 1946–49 period. These inequities which are illustrated in the following tables might readily have been avoided had there been minority participation.

TABLE 1.—Comparison between corporate income and excess-profits tax liabilities under present law and H. R. 4473

Current earnings (normal, surtax, and excess-profits net income)	Base period income	Tax liability, present law			Tax liability, H. R. 4473			Increase over present law	
		Normal and surtax	Excess- profits tax	Total tax	Normal and surtax	Excess- profits tax	Total tax	Amount	Per- cent
\$50,000.....	\$50,000	\$18,000	\$2,250	\$20,250	\$20,500	\$3,750	\$24,250	\$4,000	19.75
\$100,000.....	100,000	41,500	4,500	46,000	46,500	7,500	54,000	8,000	17.39
\$125,000.....	100,000	53,250	12,000	65,250	59,500	15,000	74,500	9,250	14.18
\$150,000.....	100,000	65,000	19,500	84,500	72,500	22,500	95,000	10,500	12.43
\$200,000.....	100,000	88,500	34,500	123,000	98,500	37,500	136,000	13,000	10.57
\$500,000.....	100,000	229,500	80,500	¹ 310,000	254,500	95,500	² 350,000	40,000	12.90

¹ Limitation 62 percent.

² Limitation 70 percent.

TABLE 2

Current earnings (normal, surtax, and excess-profits net income)	Base period income	Tax liability, present law			Tax liability, H. R. 4473			Increase over present law	
		Normal and surtax	Excess- profits tax	Total tax	Normal and surtax	Excess- profits tax	Total tax	Amount	Per- cent
\$500,000.....	\$500,000	\$229,500	\$22,500	\$252,000	\$254,500	\$37,500	\$292,000	\$40,000	15.87
\$625,000.....	500,000	288,250	60,000	348,250	319,500	75,000	394,500	46,250	13.28
\$750,000.....	500,000	347,000	97,500	444,500	384,500	112,500	497,000	52,500	11.81
\$1,000,000.....	500,000	464,500	155,500	¹ 620,000	514,500	185,500	² 700,000	80,000	12.90
\$2,500,000.....	500,000	1,169,500	380,500	¹ 1,550,000	1,294,500	455,500	² 1,750,000	200,000	12.90

¹ Limitation 62 percent.

² Limitation 70 percent.

The only relief provision under the existing excess-profits tax law for many small corporations which cannot meet the statutory relief requirements under the excess-profits tax is the 62 percent ceiling. The Democratic majority of the committee also decided in a party caucus to eliminate this relief by raising the ceiling to 70 percent.

Our attention has already been called to a great number of inequities which have already arisen under the excess-profits tax law passed 6 months ago. An attempt should at least be made to remedy these harsh discriminations and inequities rather than arbitrarily expand them.

EXCISE TAXES

The Treasury Department recommended an increase of \$3,000,000,-000 in excise taxes as follows:

Item	Proposed increases in rates	Estimated additional revenue in a full year
Passenger automobiles.....	From 7 to 20 percent of manufacturer's price.	\$685,000,000
Refrigerators, television sets, radios, phonographs, electric, gas, and oil appliances, and other consumer durables.	From 10 to 25 percent of manufacturer's price.	425,000,000
Alcoholic beverages:		
Distilled spirits.....	From \$9 to \$12 per gallon.....	} 710,000,000
Beer.....	From \$8 to \$12 per barrel.....	
Wines.....	Various.....	
Cigarettes.....	From 7 to 10 cents per pack.....	} 525,000,000
Cigars.....	Various.....	
Gasoline.....	From 1½ to 3 cents per gallon.....	580,000,000
Miscellaneous revisions.....		110,000,000
Total.....		3,035,000,000

Testimony of the witnesses during the public hearings showed that adoption of the Treasury proposals would have (1) adversely affected depressed lines of business; (2) imposed regressive and unfair burdens on consumers; (3) resulted in illegal sales; (4) seriously impaired the ability of State and local municipalities to raise sufficient revenue; and (5) created unfair competitive conditions.

The fact, as clearly established by the public hearings, is that as in the case of the individual income tax and the corporate tax, excise tax rates on items now taxed have reached their limit. Take, as just one example, the case of cigarettes where Federal excises alone already

represent 34 percent of the retail price. By increasing the tax from 7 cents to 8 cents a pack H. R. 4473 will make the Federal tax 40 percent of the retail price.

Excise tax testimony before the committee during the public hearings was confined to the excise recommendations made by the Treasury Department. H. R. 4473 imposes, however, new excises on certain selective items, such as electric shavers, electric dishwashers, cigarette lighters, and a 20-percent manufacturers' tax on inexpensive fountain and ball-point pens and mechanical pencils. Inasmuch as no recommendations for imposing excise taxes on these new items were made, the manufacturers of these products did not appear during the public hearings. We are opposed to this arbitrary method of imposing excise taxes on selective items without at least affording witnesses an opportunity to be heard.

THE NEW 20-PERCENT WITHHOLDING

H. R. 4473 imposes a 20-percent withholding on corporate-bond interest, dividend disbursements, and on royalties, patents, and copyrights irrespective of whether the recipient owes any taxes. It is estimated that approximately \$500,000,000 is currently being received by individuals who have no income-tax liability or by tax-exempt institutions such as churches and hospitals from the sources. Applying the 20-percent withholding to this amount means that approximately \$100,000,000 will be withheld by the Government from individuals who owe no taxes and from tax-exempt institutions.

In the case of withholding on wages and salaries established in the Current Tax Payment Act of 1943 the amount withheld from an employee is geared to the number of the taxpayer's dependents and his actual tax liability. The new 20-percent withholding, as provided in H. R. 4473, will, however, be made irrespective of the number of the recipient's dependents.

If the flat 20-percent withholding provided for in this bill is to become law, then it seems to us that at the very least additional attention should be directed to the serious problem of preventing the unjust enrichment of the Government at the expense of the people who owe no taxes. For example, an elderly couple may have interest from corporate bonds and a few dividends which bring in \$800 a year and together with the husband's retirement pay have a yearly income of \$2,400. This couple will have no tax liability but they will be out of pocket \$160 next year as the result of withholding 20 percent on their \$800. Sometimes, around the middle of the following year they will, if a proper claim for refund is made, be reimbursed the \$160, but of course by that time approximately one-half of this amount will already have been withheld on the current year's dividends, and by the end of the year they will be out of pocket the full \$160 all over again. The continuous withholding by the Government of an amount equal to approximately 10 percent of this couple's investment income will go on each year until they die or dispose of their investment.

Very little of the alleged leakage from the income tax of interest is attributable to corporate bond interest but by extending the withholding to this type of interest the taxpayer will be required to make

difficult tax computations on his tax return because some interest will be withheld against and some will not.

Another serious and objectionable defect arising from the 20-percent withholding as contained in H. R. 4473 is that any individual receiving income against which no withholding has been applied (as in the case of Government E bonds for example), will automatically be precluded from using the simplified 1040-A return. We fear that the result of this will be to further discourage faithful reporting as income of all interest from Government bonds which is alleged by the Treasury to be one of the largest areas of tax leakage.

STRUCTURAL AMENDMENTS

H. R. 4473 contains several commendable structural improvements and adjustments both in the excise and the income-tax field. These include, for example, the deferment of the capital-gains tax from the sale of a personal residence where the proceeds are used to buy another residence, the clarification of the law regarding family partnerships, the addition to the depletion items which are now at a competitive disadvantage, and the capital-gain treatment to livestock. In connection with this last provision the term "livestock" should be given a broad rather than a narrow definition and the gain should be computed in accordance with the method of livestock accounting used by the taxpayer as presently recognized by the Bureau of Internal Revenue.

Among the improvements in the excise tax field is the exemption from the admissions tax on admissions to functions given by nonprofit religious, educational, and charitable organizations, including agricultural fairs; the adjustment in the tax on photographic apparatus; the elimination of the discriminatory electrical energy tax; the exclusion from the base of the tax on automotive parts and accessories, the fair market value of "trade ins" and the allowance of a credit for the tax paid where the parts are used in farm machinery; the exclusion from the 20-percent tax on toilet preparations of baby oils, powders and lotions and the exclusion of toilet preparations purchased by barber shops and beauty parlors for use in their shops; the exclusion from the tax on sporting goods of items used predominantly by children or in schools.

There are, however, several structural changes contained in H. R. 4473 which were recommended by the Treasury Department in executive session. Although the objectives of these provisions are desirable, certain amendments to them should be made. This is particularly true, for example, of section 123 of H. R. 4473 which imposes a limitation on the surtax exemption and the minimum excess profits tax credit in the case of related corporations.

DANIEL A. REED.
ROY O. WOODRUFF.
THOMAS A. JENKINS.
RICHARD M. SIMPSON.
ROBERT W. KEAN.
CARL T. CURTIS.
NOAH M. MASON.
THOMAS E. MARTIN.
HAL HOLMES.
JOHN W. BYRNES.

Union Calendar No. 188

82^D CONGRESS
1ST SESSION

H. R. 4473

[Report No. 586]

IN THE HOUSE OF REPRESENTATIVES

JUNE 15, 1951

Mr. DOUGHTON introduced the following bill; which was referred to the Committee on Ways and Means

JUNE 18, 1951

Committed to the Committee of the Whole House on the State of the Union
and ordered to be printed

A BILL

To provide revenue, and for other purposes.

- 1 *Be it enacted by the Senate and House of Representa-*
2 *tives of the United States of America in Congress assembled,*
3 That (a) SHORT TITLE.—This Act, divided into titles and
4 sections according to the following table of contents, may
5 be cited as the “Revenue Act of 1951”:

TABLE OF CONTENTS

TITLE I—INCREASE IN INCOME TAX RATES

PART I—INDIVIDUAL INCOME TAXES

Sec. 101. Defense tax.

- (a) Increase in rate of tax.
- (b) Amendment of section 12 (b).
- (c) Limitation on tax.
- (d) Technical amendments.

Sec. 102. Individuals with adjusted gross income of less than \$5,000.

Sec. 103. Computation of tax in case of certain joint returns.

Sec. 104. Effective date of part I.

TABLE OF CONTENTS—Continued

TITLE I—INCREASE IN INCOME TAX RATE—Continued

PART II—CORPORATION INCOME TAXES

- Sec. 121. Increase in rate of corporation normal tax.
 - (a) Amendment of section 13.
 - (b) Maximum tax.
 - (c) Mutual insurance companies other than life or marine.
 - (d) Regulated investment companies.
 - (e) Business income of certain section 101 organizations.
 - (f) Technical amendments.
- Sec. 122. Credits of corporations.
 - (a) Dividends received credit.
 - (b) Credit for dividends paid on certain preferred stock.
 - (c) Western Hemisphere trade corporations.
- Sec. 123. Surtax exemptions and certain credits of related corporations.
 - (a) Limitation on surtax exemption in the case of related corporations.
 - (b) Insurance companies.
 - (c) Minimum excess profits credit.
- Sec. 124. Computation of alternative capital gains tax.
 - (a) Alternative tax.
 - (b) Effective date.
- Sec. 125. Effective date.

PART III—FISCAL YEAR TAXPAYERS

- Sec. 131. Fiscal year taxpayers.
 - (a) Amendment of section 108.
 - (b) Computation of excess profits tax.
 - (c) Technical amendments.

TITLE II—WITHHOLDING OF TAX AT SOURCE

PART I—WITHHOLDING OF TAX AT SOURCE ON DIVIDENDS, INTEREST,
AND ROYALTIES

- Sec. 201. Collection of income tax at source on dividends, interest, and royalties.
- Sec. 202. Credit for tax withheld.
- Sec. 203. Credits in case of organizations exempt from tax.
- Sec. 204. Technical amendments.
 - (a) Tax computed by collector.
 - (b) Requirement of declaration of estimated tax.
 - (c) Credit under section 143.
 - (d) Credit under section 144.
 - (e) Information at source.
 - (f) Information by corporations.
 - (g) Clerical amendment.
 - (h) Amount of credit considered as payment.
 - (i) Special period of limitations for small refunds on tax withheld at source.
 - (j) Presumptions as to date of payment.
 - (k) Interest on overpayments.
 - (l) Definition of withholding agent.
 - (m) Effective date.

TABLE OF CONTENTS—Continued

TITLE II—WITHHOLDING OF TAX AT SOURCE—Continued

PART II—INCREASE IN WITHHOLDING OF TAX AT SOURCE ON WAGES

- Sec. 221. Percentage method of withholding.
- Sec. 222. Wage bracket withholding.
- Sec. 223. Additional withholding of tax on wages upon agreement by employer and employee.
- Sec. 224. Effective date.

TITLE III—MISCELLANEOUS INCOME TAX AMENDMENTS

- Sec. 301. Tax treatment in case of head of household.
 - (a) Surtax in case of head of household.
 - (b) Effective date.
- Sec. 302. Expenditures in the development of mines.
 - (a) Deduction of expenditures.
 - (b) Adjusted basis for determining gain or loss upon sale or exchange.
 - (c) Technical amendment.
 - (d) Effective date.
- Sec. 303. Gain from sale or exchange of taxpayer's residence.
 - (a) Nonrecognition of gain in certain cases.
 - (b) Technical amendments.
 - (c) Effective date.
- Sec. 304. Percentage depletion.
 - (a) Allowance of percentage depletion.
 - (b) Technical amendment.
 - (c) Effective date.
- Sec. 305. Capital gains and losses.
 - (a) Treatment of long-term capital gains and losses.
 - (b) Alternative tax.
 - (c) Technical amendments.
 - (d) Effective date.
- Sec. 306. Sales of livestock.
- Sec. 307. Tax treatment of coal royalties.
 - (a) Definition of property used in the trade or business.
 - (b) Gain or loss upon certain disposals of timber or coal.
 - (c) Clerical amendment.
 - (d) Effective date.
- Sec. 308. Collapsible corporations.
 - (a) Definitions with respect to collapsible corporations.
 - (b) Limitations on application of section 117 (m).
 - (c) Effective date.
- Sec. 309. Dealers in securities—capital gains and ordinary losses.
- Sec. 310. Treatment of gain on sales of certain property between spouses and between an individual and a controlled corporation.
 - (a) Disallowance of capital gain treatment.
 - (b) Effective date.
- Sec. 311. Life insurance companies.
 - (a) Reserve and other policy liability credit for 1951.
 - (b) Effective date.

TABLE OF CONTENTS—Continued

TITLE III—MISCELLANEOUS INCOME TAX AMENDMENTS—Continued

- Sec. 312. Tax treatment of certain investment companies.
 - (a) Inclusion of certain registered management companies in the definition of regulated investment company.
 - (b) Technical amendment.
 - (c) Effective date.
- Sec. 313. Family partnerships.
 - (a) Definition of partner.
 - (b) Allocation of partnership income.
 - (c) Effective date.

TITLE IV—EXCISE TAXES

PART I—TAX ON ADMISSIONS AND CABARETS

- Sec. 401. Removal of tax on free admissions.
- Sec. 402. Exemptions from admissions tax.
 - (a) Reinstatement of prewar exemptions.
 - (b) Amendment of section 1701 (a).
 - (c) Admissions to municipal swimming pools, etc.
- Sec. 403. Effective date of amendments relating to admissions.
- Sec. 404. Tax on cabarets, roof gardens, etc.
 - (a) Ballrooms and dance halls.
 - (b) Effective date.

PART II—TAX ON CIGARETTES

- Sec. 421. Tax on cigarettes.
 - (a) Increase in rate.
 - (b) Effective date.
- Sec. 422. Floor stocks tax on cigarettes.

PART III—RETAILERS' EXCISE TAXES

- Sec. 431. Tax on lighters.
- Sec. 432. Retailers' excise tax on toilet preparations.
 - (a) Baby oils, etc.
 - (b) Sales to barber shops, etc.
- Sec. 433. Effective date of part III.

PART IV—DIESEL FUEL

- Sec. 441. Diesel fuel used in highway vehicles.
 - (a) Imposition of tax.
 - (b) Effective date.

PART V—LIQUOR

- Sec. 451. Increase in tax on distilled spirits from \$9 to \$10.50 per gallon.
 - (a) Distilled spirits generally.
 - (b) Imported perfumes containing distilled spirits.
 - (c) Floor stocks tax.
- Sec. 452. Wines.
 - (a) Increase in rate of tax.
 - (b) Floor stocks.

TABLE OF CONTENTS—Continued

TITLE IV—EXCISE TAXES—Continued

PART V—LIQUOR—continued

- Sec. 453. Fermented malt liquor.
 - (a) Increase in tax on fermented malt liquors from \$8 to \$9 per barrel.
 - (b) Floor stocks tax.
- Sec. 454. Clerical amendment.
- Sec. 455. Effective date of part V.

PART VI—OCCUPATIONAL TAXES

- Sec. 461. Dealers in liquors.
 - (a) Wholesale dealers in liquors.
 - (b) Retail dealers in liquors.
 - (c) Wholesale dealers in malt liquors.
- Sec. 462. Drawback in the case of distilled spirits used in the manufacture of certain nonbeverage products.
 - (a) Drawback.
 - (b) Effective date.
 - (c) Technical amendment.
- Sec. 463. Tax on coin-operated gaming devices.
- Sec. 464. Tax on bowling alleys and billiard and pool tables.
 - (a) Increase in rate.
 - (b) Clerical amendment.
- Sec. 465. Effective date of part VI.

PART VII—WAGERING

- Sec. 471. Wagering taxes.
 - (a) Imposition of taxes.
 - (b) Technical amendment.
- Sec. 472. Effective date of part VII.

PART VIII—MANUFACTURERS' EXCISE TAXES

- Sec. 481. Automobiles, trucks, and parts or accessories.
 - (a) Increase in tax on trucks.
 - (b) Increase in tax on passenger automobiles and motorcycles.
 - (c) Increase in tax on parts or accessories.
 - (d) Rebuilt parts or accessories.
 - (e) Technical amendment.
 - (f) Parts or accessories for farm equipment.
 - (g) Effective date of subsection (f).
 - (h) Removal of tax on tires for toys, etc.
- Sec. 482. Navigation receivers sold to the United States.
 - (a) Exemption on sales to United States of certain radio sets.
 - (b) Tax-free sales of radio parts.
 - (c) Refund in case of use of parts.
 - (d) Refund in case of resale to United States.
 - (e) Use by manufacturer of taxable parts.
 - (f) Effective dates.

TABLE OF CONTENTS—Continued

TITLE IV—EXCISE TAXES—Continued

PART VIII—MANUFACTURERS' EXCISE TAXES—continued

- Sec. 483. Repeal of tax on certain sporting goods; increase in tax on remaining sporting goods.
- Sec. 484. Addition of certain items to the tax on electric, gas, and oil appliances; removal of tax on electric heating pads.
- Sec. 485. Adjustments of tax rates on photographic apparatus and film; repeal of tax on certain items.
 - (a) Items subject to tax.
 - (b) Floor stocks refunds on bulbs.
- Sec. 486. Imposition of tax on mechanical pencils and fountain and ball point pens.
- Sec. 487. Repeal of tax on electrical energy.
 - (a) Repeal of tax.
 - (b) Effective date.
- Sec. 488. Tax on gasoline.
 - (a) Increase in rate.
 - (b) Floor stocks tax.
- Sec. 489. Effective date of part VIII.

PART IX—MISCELLANEOUS EXCISE TAX AMENDMENTS

- Sec. 491. Reduction of tax on telegraph dispatches.
 - (a) Reduction of tax.
 - (b) Clerical amendment.
 - (c) Effective date.
 - (d) Amounts paid pursuant to bills rendered.
 - (e) Rate reduction date.
- Sec. 492. Exemption of fishing trips from tax on transportation.
 - (a) Exemption.
 - (b) Effective date.
- Sec. 493. Transportation of oil by water.
 - (a) Imposition of tax.
 - (b) Technical amendment.
 - (c) Effective date.
- Sec. 494. Articles from foreign trade zones.
 - (a) Imported articles.
 - (b) Previously taxpaid articles.

TITLE V—MISCELLANEOUS PROVISIONS AND AMENDMENTS

- Sec. 501. Exemption of certain organizations from income tax for prior taxable years.
- Sec. 502. Excess profits credit based on income.
 - (a) Percentage of average base period net income taken into account.
 - (b) Effective date.
- Sec. 503. Estate and gift tax treatment of United States bonds held by certain nonresident aliens.
 - (a) Estate tax.
 - (b) Gift tax.
- Sec. 504. Reorganization Plan Numbered 26 of 1950.

(b) ACT AMENDATORY OF INTERNAL REVENUE CODE.—Except as otherwise expressly provided, wherever in this Act an amendment or repeal is expressed in terms of an amendment to or repeal of a chapter, subchapter, title, supplement, section, subsection, subdivision, paragraph, subparagraph, or clause, the reference shall be considered to be made to a provision of the Internal Revenue Code.

(c) MEANING OF TERMS USED.—Except as otherwise expressly provided, terms used in this Act shall have the same meaning as when used in the Internal Revenue Code.

TITLE I—INCREASE IN INCOME TAX RATES

PART I—INDIVIDUAL INCOME TAXES

SEC. 101. DEFENSE TAX.

(a) INCREASE IN RATE OF TAX.—Part I of subchapter B of chapter 1 is hereby amended by adding at the end thereof the following new section:

“SEC. 16. DEFENSE TAX.

“(a) INDIVIDUALS—CALENDAR YEAR 1951.—In the case of a taxable year beginning on January 1, 1951, and ending on December 31, 1951, the amount of the combined normal tax and surtax under sections 11 and 12, and the amount of the combined normal tax and surtax under section 421 (a) (2), shall be the amount of such combined tax computed without regard to this section, increased by 4 per centum.

1 “(b) INDIVIDUALS—TAXABLE YEARS BEGINNING
2 AFTER AUGUST 31, 1951.—In the case of taxable years
3 beginning after August 31, 1951, the amount of the com-
4 bined normal tax and surtax under sections 11 and 12, and
5 the amount of the combined normal tax and surtax under
6 section 421 (a) (2), shall be the amount of such combined
7 tax computed without regard to this section, increased by
8 $12\frac{1}{2}$ per centum.

9 “(c) ALTERNATIVE CAPITAL GAINS TAX.—

10 “(1) CALENDAR YEAR 1951.—In computing an
11 alternative tax under paragraph (1) or (2) of section
12 117 (c) for a taxable year beginning on January 1,
13 1951, and ending on December 31, 1951, the amount to
14 be added to the partial tax under such paragraph shall
15 be increased by 4 per centum.

16 “(2) TAXABLE YEARS BEGINNING AFTER AUGUST
17 31, 1951.—In computing an alternative tax under para-
18 graph (1) or (2) of section 117 (c) for a taxable
19 year beginning after August 31, 1951, the amount to be
20 added to the partial tax under such paragraph shall be
21 increased by $12\frac{1}{2}$ per centum.

22 “(3) TAXABLE YEARS BEGINNING BEFORE SEP-
23 TEMBER 1, 1951, AND ENDING AFTER AUGUST 31,
24 1951.—In computing an alternative tax under paragraph
25 (1) or (2) of section 117 (c) for a taxable year (other

1 than one beginning on January 1, 1951, and ending on
2 December 31, 1951) beginning before September 1,
3 1951, and ending after August 31, 1951, the amount
4 to be added to the partial tax under such paragraph shall
5 be increased by a percentage which bears the same
6 ratio to $12\frac{1}{2}$ per centum as the number of months in
7 such taxable year after August 31, 1951, bears to the
8 total number of calendar months in such taxable year.

9 For the purposes of this paragraph, a calendar month
10 only part of which falls within a taxable year (A)
11 shall be disregarded if less than 15 days of such month
12 are included in such taxable year, and (B) shall be
13 included as a calendar month within the taxable year
14 if more than 14 days of such month fall within the tax-
15 able year.”

16 (b) AMENDMENT OF SECTION 12 (b).—Section 12

17 (b) (relating to rates of surtax) is hereby amended by
18 striking out paragraph (2) and inserting in lieu thereof
19 the following:

20 “In the case of a head of a household, the tax imposed
21 by this subsection shall not apply to any taxable year
22 beginning after August 31, 1951. In the case of an
23 individual whose surtax net income for the taxable year
24 is over \$90,000, the tax imposed by this paragraph

1 shall not apply if the defense tax provided in section 16
2 is applicable to such taxable year.

3 “(2) SURTAX NET INCOME OVER \$90,000—CAL-
4 ENDAR YEAR 1951.—In the case of a taxable year
5 beginning on January 1, 1951, and ending on December
6 31, 1951, if the surtax net income of the individual
7 is over \$90,000, there shall be levied, collected, and
8 paid for such taxable year upon the surtax net income
9 of such individual the surtax shown in the following
10 table:

If the surtax net income is:	The surtax shall be:
Over \$90,000 but not over \$100,000—	\$55,920 plus 83% of excess over \$90,000.
Over \$100,000 but not over \$150,000.	\$64,220 plus 84% of excess over \$100,000.
Over \$150,000 but not over \$200,000.	\$106,220 plus 85% of excess over \$150,000.
Over \$200,000-----	\$148,720 plus 86% of excess over \$200,000.

11 “(3) SURTAX NET INCOME OVER \$90,000—TAX-
12 ABLE YEARS BEGINNING AFTER AUGUST 31, 1951.—
13 In the case of a taxable year beginning after August 31,
14 1951, to which the defense tax provided by section 16
15 is applicable, if the surtax net income of the individual for
16 the taxable year is over \$90,000, there shall be levied,
17 collected, and paid for such taxable year upon the
18 surtax net income of such individual a surtax of \$55,920
19 plus 81 per centum of the excess over \$90,000.”

1 (c) LIMITATION ON TAX.—Section 12 (f) (relating to
2 limitation on tax) is hereby amended to read as follows:

3 “(f) LIMITATION ON TAX.—

4 “(1) TAXABLE YEARS TO WHICH DEFENSE TAX
5 DOES NOT APPLY.—In the case of a taxable year be-
6 ginning after September 30, 1950, other than a taxable
7 year to which paragraph (2) or (3) is applicable, the
8 combined normal tax and surtax shall in no event ex-
9 ceed 87 per centum of the net income for the taxable
10 year.

11 “(2) CALENDAR YEAR 1951.—In the case of a
12 taxable year beginning on January 1, 1951, and end-
13 ing December 31, 1951, the combined normal tax and
14 surtax, increased as provided in section 16, shall in no
15 event exceed 88 per centum of the net income for the
16 taxable year.

17 “(3) OTHER TAXABLE YEARS TO WHICH DEFENSE
18 TAX APPLIES.—In the case of a taxable year beginning
19 after August 31, 1951, to which the defense tax provided
20 in section 16 is applicable, the combined normal tax
21 and surtax, increased as provided in section 16, shall in
22 no event exceed 90 per centum of the net income for
23 the taxable year.”

1 (d) TECHNICAL AMENDMENTS.—

2 (1) Section 11 (a) (relating to normal tax on
3 individuals) is hereby amended by adding at the end
4 thereof the following new sentence: “For percentage
5 increase in the amount of tax for the calendar year 1951
6 and for taxable years beginning after August 31, 1951,
7 see section 16.”

8 (2) Section 12 (g) (cross references) is hereby
9 amended by adding at the end thereof the following:

10 “(7) DEFENSE TAX.—For percentage increase in
11 the amount of tax for the calendar year 1951 and for
12 taxable years beginning after August 31, 1951, see sec-
13 tion 16.

14 “(8) COMPUTATION OF TAX FOR CERTAIN FISCAL
15 YEARS.—For computation of tax in the case of taxable
16 years (other than the calendar year 1951) beginning
17 before September 1, 1951, and ending after August 31,
18 1951, see section 108 (h).”

19 SEC. 102. INDIVIDUALS WITH ADJUSTED GROSS INCOME
20 OF LESS THAN \$5,000.

21 Section 400 (relating to optional tax on individuals
22 with adjusted gross incomes of less than \$5,000) is hereby
23 amended by striking out the tables contained therein and
24 inserting in lieu thereof the following:

"Table I

"Taxable year beginning January 1, 1951, and ending
December 31, 1951

If adjusted gross income is—		And the number of exemptions is—				If adjusted gross income is—		And the number of exemptions is—									
At least	But less than	1	2	3	4 or more	At least	But less than	1	2		3		4	5	6	7	8 or more
									And if other than a joint re- turn is filed	And if a joint re- turn is filed	And if other than a joint re- turn is filed	And if a joint re- turn is filed					
		The income and defense tax shall be—						The income and defense tax shall be—									
\$0	\$675	\$0	\$0	\$0	\$0	\$2,325	\$2,350	\$313	\$188	\$188	\$63	\$63	\$0	\$0	\$0	\$0	\$0
675	700	4	0	0	0	2,350	2,375	317	193	193	68	68	0	0	0	0	0
700	725	9	0	0	0	2,375	2,400	322	197	197	73	73	0	0	0	0	0
725	750	13	0	0	0	2,400	2,425	327	202	202	77	77	0	0	0	0	0
750	775	18	0	0	0	2,425	2,450	332	207	207	82	82	0	0	0	0	0
775	800	23	0	0	0	2,450	2,475	336	211	211	87	87	0	0	0	0	0
800	825	27	0	0	0	2,475	2,500	341	216	216	91	91	0	0	0	0	0
825	850	32	0	0	0	2,500	2,525	346	221	221	96	96	0	0	0	0	0
850	875	37	0	0	0	2,525	2,550	350	225	225	101	101	0	0	0	0	0
875	900	41	0	0	0	2,550	2,575	355	230	230	105	105	0	0	0	0	0
900	925	46	0	0	0	2,575	2,600	360	235	235	110	110	0	0	0	0	0
925	950	51	0	0	0	2,600	2,625	364	239	239	115	115	0	0	0	0	0
950	975	55	0	0	0	2,625	2,650	369	244	244	119	119	0	0	0	0	0
975	1,000	60	0	0	0	2,650	2,675	374	249	249	124	124	0	0	0	0	0
1,000	1,025	65	0	0	0	2,675	2,700	378	254	254	129	129	4	0	0	0	0
1,025	1,050	69	0	0	0	2,700	2,725	383	258	258	133	133	9	0	0	0	0
1,050	1,075	74	0	0	0	2,725	2,750	388	263	263	138	138	13	0	0	0	0
1,075	1,100	79	0	0	0	2,750	2,775	392	268	268	143	143	18	0	0	0	0
1,100	1,125	83	0	0	0	2,775	2,800	397	272	272	147	147	23	0	0	0	0
1,125	1,150	88	0	0	0	2,800	2,825	402	277	277	152	152	27	0	0	0	0
1,150	1,175	93	0	0	0	2,825	2,850	406	282	282	157	157	32	0	0	0	0
1,175	1,200	98	0	0	0	2,850	2,875	411	286	286	161	161	37	0	0	0	0
1,200	1,225	102	0	0	0	2,875	2,900	416	291	291	166	166	41	0	0	0	0
1,225	1,250	107	0	0	0	2,900	2,925	421	296	296	171	171	46	0	0	0	0
1,250	1,275	112	0	0	0	2,925	2,950	426	300	300	176	176	51	0	0	0	0
1,275	1,300	116	0	0	0	2,950	2,975	431	305	305	180	180	55	0	0	0	0
1,300	1,325	121	0	0	0	2,975	3,000	436	310	310	185	185	60	0	0	0	0
1,325	1,350	126	1	0	0	3,000	3,050	444	317	317	192	192	67	0	0	0	0
1,350	1,375	130	5	0	0	3,050	3,100	454	326	326	201	201	76	0	0	0	0
1,375	1,400	135	10	0	0	3,100	3,150	465	335	335	211	211	86	0	0	0	0
1,400	1,425	140	15	0	0	3,150	3,200	475	345	345	220	220	95	0	0	0	0
1,425	1,450	144	20	0	0	3,200	3,250	485	354	354	229	229	105	0	0	0	0
1,450	1,475	149	24	0	0	3,250	3,300	496	363	363	239	239	114	0	0	0	0
1,475	1,500	154	29	0	0	3,300	3,350	506	373	373	248	248	123	0	0	0	0
1,500	1,525	158	34	0	0	3,350	3,400	516	382	382	257	257	133	8	0	0	0
1,525	1,550	163	38	0	0	3,400	3,450	526	392	392	267	267	142	17	0	0	0
1,550	1,575	168	43	0	0	3,450	3,500	537	401	401	276	276	151	27	0	0	0
1,575	1,600	172	48	0	0	3,500	3,550	547	410	410	285	285	161	36	0	0	0
1,600	1,625	177	52	0	0	3,550	3,600	557	420	420	295	295	170	45	0	0	0
1,625	1,650	182	57	0	0	3,600	3,650	568	430	429	304	304	179	55	0	0	0
1,650	1,675	186	62	0	0	3,650	3,700	578	441	438	314	314	189	64	0	0	0
1,675	1,700	191	66	0	0	3,700	3,750	588	451	448	323	323	198	73	0	0	0
1,700	1,725	196	71	0	0	3,750	3,800	598	461	457	332	332	207	83	0	0	0
1,725	1,750	200	76	0	0	3,800	3,850	609	471	466	342	342	217	92	0	0	0
1,750	1,775	205	80	0	0	3,850	3,900	619	482	476	351	351	226	101	0	0	0
1,775	1,800	210	85	0	0	3,900	3,950	629	492	485	360	360	236	111	0	0	0
1,800	1,825	215	90	0	0	3,950	4,000	640	502	495	370	370	245	120	0	0	0
1,825	1,850	219	94	0	0	4,000	4,050	650	513	504	379	379	254	129	5	0	0
1,850	1,875	224	99	0	0	4,050	4,100	660	523	513	388	388	264	139	14	0	0
1,875	1,900	229	104	0	0	4,100	4,150	671	533	523	398	398	273	148	23	0	0
1,900	1,925	233	108	0	0	4,150	4,200	681	544	532	407	407	282	158	33	0	0
1,925	1,950	238	113	0	0	4,200	4,250	691	554	541	417	417	292	167	42	0	0
1,950	1,975	243	118	0	0	4,250	4,300	701	564	551	427	426	301	176	51	0	0
1,975	2,000	247	122	0	0	4,300	4,350	712	574	560	437	435	310	186	61	0	0
2,000	2,025	252	127	2	0	4,350	4,400	722	585	569	447	445	320	195	70	0	0
2,025	2,050	257	132	7	0	4,400	4,450	732	595	579	458	454	329	204	80	0	0
2,050	2,075	261	137	12	0	4,450	4,500	743	605	588	468	463	339	214	89	0	0
2,075	2,100	266	141	16	0	4,500	4,550	753	616	597	478	473	348	223	98	0	0
2,100	2,125	271	146	21	0	4,550	4,600	763	626	607	489	482	357	232	108	0	0
2,125	2,150	275	151	26	0	4,600	4,650	774	636	616	499	491	367	242	117	0	0
2,150	2,175	280	155	30	0	4,650	4,700	784	647	626	509	501	376	251	126	2	0
2,175	2,200	285	160	35	0	4,700	4,750	794	657	635	520	510	385	261	136	11	0
2,200	2,225	289	165	40	0	4,750	4,800	804	667	644	530	519	395	270	145	20	0
2,225	2,250	294	169	44	0	4,800	4,850	815	677	654	540	529	404	279	154	30	0
2,250	2,275	299	174	49	0	4,850	4,900	825	688	663	550	538	413	289	164	39	0
2,275	2,300	303	179	54	0	4,900	4,950	835	698	672	561	548	423	298	173	48	0
2,300	2,325	308	183	59	0	4,950	5,000	846	708	682	571	557	432	307	183	58	0

"Table II

"Taxable years beginning after August 31, 1951

If adjusted gross income is—		And the number of exemptions is—				If adjusted gross income is—		And the number of exemptions is—												
								1		2			3			4	5	6	7	8 or more
At least	But less than	1	2	3	4 or more	At least	But less than	And taxpayer is single or married filing separately	And taxpayer is head of household	And taxpayer is single or married filing separately	And taxpayer is head of household	And a joint return is filed	And taxpayer is single or married filing separately	And taxpayer is head of household	And a joint return is filed					
		The income and defense tax shall be—						The income and defense tax shall be—												
		\$0	\$0	\$0	\$0	\$2,325	\$2,350	\$338	\$338	\$203	\$203	\$203	\$68	\$68	\$68	\$0	\$0	\$0	\$0	\$0
\$0	\$675	\$0	\$0	\$0	\$0	\$2,325	\$2,350	\$338	\$338	\$203	\$203	\$203	\$68	\$68	\$68	\$0	\$0	\$0	\$0	\$0
675	700	4	0	0	0	2,350	2,375	343	343	208	208	208	73	73	73	0	0	0	0	0
700	725	9	0	0	0	2,375	2,400	348	348	213	213	213	78	78	78	0	0	0	0	0
725	750	14	0	0	0	2,400	2,425	354	354	219	219	219	84	84	84	0	0	0	0	0
750	775	19	0	0	0	2,425	2,450	359	359	224	224	224	89	89	89	0	0	0	0	0
775	800	24	0	0	0	2,450	2,475	364	364	229	229	229	94	94	94	0	0	0	0	0
800	825	30	0	0	0	2,475	2,500	369	369	234	234	234	99	99	99	0	0	0	0	0
825	850	35	0	0	0	2,500	2,525	374	374	239	239	239	104	104	104	0	0	0	0	0
850	875	40	0	0	0	2,525	2,550	379	379	244	244	244	109	109	109	0	0	0	0	0
875	900	45	0	0	0	2,550	2,575	384	384	249	249	249	114	114	114	0	0	0	0	0
900	925	50	0	0	0	2,575	2,600	389	389	254	254	254	119	119	119	0	0	0	0	0
925	950	55	0	0	0	2,600	2,625	394	394	259	259	259	124	124	124	0	0	0	0	0
950	975	60	0	0	0	2,625	2,650	399	399	264	264	264	129	129	129	0	0	0	0	0
975	1,000	65	0	0	0	2,650	2,675	404	404	269	269	269	134	134	134	0	0	0	0	0
1,000	1,025	70	0	0	0	2,675	2,700	409	409	274	274	274	139	139	139	4	0	0	0	0
1,025	1,050	75	0	0	0	2,700	2,725	414	414	279	279	279	144	144	144	9	0	0	0	0
1,050	1,075	80	0	0	0	2,725	2,750	419	419	284	284	284	149	149	149	14	0	0	0	0
1,075	1,100	85	0	0	0	2,750	2,775	424	424	289	289	289	154	154	154	19	0	0	0	0
1,100	1,125	90	0	0	0	2,775	2,800	429	429	294	294	294	159	159	159	24	0	0	0	0
1,125	1,150	95	0	0	0	2,800	2,825	435	435	300	300	300	165	165	165	30	0	0	0	0
1,150	1,175	100	0	0	0	2,825	2,850	440	440	305	305	305	170	170	170	35	0	0	0	0
1,175	1,200	105	0	0	0	2,850	2,875	445	445	310	310	310	175	175	175	40	0	0	0	0
1,200	1,225	111	0	0	0	2,875	2,900	450	450	315	315	315	180	180	180	45	0	0	0	0
1,225	1,250	116	0	0	0	2,900	2,925	455	455	320	320	320	185	185	185	50	0	0	0	0
1,250	1,275	121	0	0	0	2,925	2,950	461	460	325	325	325	190	190	190	55	0	0	0	0
1,275	1,300	126	0	0	0	2,950	2,975	466	466	330	330	330	195	195	195	60	0	0	0	0
1,300	1,325	131	0	0	0	2,975	3,000	472	471	335	335	335	200	200	200	65	0	0	0	0
1,325	1,350	136	1	0	0	3,000	3,050	480	479	343	343	343	208	208	208	73	0	0	0	0
1,350	1,375	141	6	0	0	3,050	3,100	491	490	353	353	353	218	218	218	83	0	0	0	0
1,375	1,400	146	11	0	0	3,100	3,150	503	500	363	363	363	228	228	228	93	0	0	0	0
1,400	1,425	151	16	0	0	3,150	3,200	514	511	373	373	373	238	238	238	103	0	0	0	0
1,425	1,450	156	21	0	0	3,200	3,250	525	521	383	383	383	248	248	248	113	0	0	0	0
1,450	1,475	161	26	0	0	3,250	3,300	536	532	393	393	393	258	258	258	123	0	0	0	0
1,475	1,500	166	31	0	0	3,300	3,350	547	543	403	403	403	268	268	268	133	0	0	0	0
1,500	1,525	171	36	0	0	3,350	3,400	558	553	413	413	413	278	278	278	143	8	0	0	0
1,525	1,550	176	41	0	0	3,400	3,450	569	564	424	424	424	289	289	289	154	19	0	0	0
1,550	1,575	181	46	0	0	3,450	3,500	581	575	434	434	434	299	299	299	164	29	0	0	0
1,575	1,600	186	51	0	0	3,500	3,550	592	585	444	444	444	309	309	309	174	39	0	0	0
1,600	1,625	192	57	0	0	3,550	3,600	603	596	454	454	454	319	319	319	184	49	0	0	0
1,625	1,650	197	62	0	0	3,600	3,650	614	607	465	465	464	329	329	329	194	59	0	0	0
1,650	1,675	202	67	0	0	3,650	3,700	625	617	477	475	474	339	339	339	204	69	0	0	0
1,675	1,700	207	72	0	0	3,700	3,750	636	628	488	486	484	349	349	349	214	79	0	0	0
1,700	1,725	212	77	0	0	3,750	3,800	647	638	499	497	494	359	359	359	224	89	0	0	0
1,725	1,750	217	82	0	0	3,800	3,850	659	649	510	507	505	370	370	370	235	100	0	0	0
1,750	1,775	222	87	0	0	3,850	3,900	670	660	521	518	515	380	380	380	245	110	0	0	0
1,775	1,800	227	92	0	0	3,900	3,950	681	670	532	529	525	390	390	390	255	120	0	0	0
1,800	1,825	232	97	0	0	3,950	4,000	692	681	543	539	535	400	400	400	265	130	0	0	0
1,825	1,850	237	102	0	0	4,000	4,050	703	692	555	550	545	410	410	410	275	140	5	0	0
1,850	1,875	242	107	0	0	4,050	4,100	714	702	566	560	555	420	420	420	285	150	15	0	0
1,875	1,900	247	112	0	0	4,100	4,150	725	713	577	571	565	430	430	430	295	160	25	0	0
1,900	1,925	252	117	0	0	4,150	4,200	736	723	588	582	575	440	440	440	305	170	35	0	0
1,925	1,950	257	122	0	0	4,200	4,250	748	734	599	592	586	451	451	451	316	181	46	0	0
1,950	1,975	262	127	0	0	4,250	4,300	759	745	610	603	596	462	461	461	326	191	56	0	0
1,975	2,000	267	132	0	0	4,300	4,350	770	755	621	614	606	473	472	471	336	201	66	0	0
2,000	2,025	273	138	3	0	4,350	4,400	781	766	633	624	616	484	482	481	346	211	76	0	0
2,025	2,050	278	143	8	0	4,400	4,450	792	777	644	635	626	495	493	491	356	221	86	0	0
2,050	2,075	283	148	13	0	4,450	4,500	803	787	655	645	636	506	504	501	366	231	96	0	0
2,075	2,100	288	153	18	0	4,500	4,550	814	798	666	656	646	517	514	511	376	241	106	0	0
2,100	2,125	293	158	23	0	4,550	4,600	826	809	677	667	656	529	525	521	386	251	116	0	0
2,125	2,150	298	163	28	0	4,600	4,650	837	819	688	677	667	540	536	532	397	262	127	0	0
2,150	2,175	303	168	33	0	4,650	4,700	848	830	699	688	677	551	546	542	407	272	137	2	0
2,175	2,200	308	173	38	0	4,700	4,750	859	840	710	699	687	562	557	552	417	282	147	12	0
2,200	2,225	313	178	43	0	4,750	4,800	870	851	722	709	697	573	568	562	427	292	157	22	0
2,225	2,250	318	183	48	0	4,800	4,850	881	862	733	720	707	584	578	572	437	302	167	32	0
2,250	2,275	323	188	53	0	4,850	4,900	892	872	744	731	717	595	589	582	447	312	177	42	0
2,275	2,300	328	193	58	0	4,900	4,950	904	883	755	741	727	607	599	592	457	322	187	52	0
2,300	2,325	333	198	63	0	4,950	5,000	915	894	766	752	737	618	610	602	467	332	197	62	0

1 **SEC. 103. COMPUTATION OF TAX IN CASE OF CERTAIN**
2 **JOINT RETURNS.**

3 If a joint return of a husband and wife is filed under
4 the provisions of section 51 (b) (3) of the Internal Revenue
5 Code in a case where the husband and wife have different
6 taxable years because of the death of either spouse, and the
7 taxable year of the surviving spouse covered by such joint
8 return began before September 1, 1951, and ended after
9 August 31, 1951, the amendments made by this part shall
10 be applicable in respect of such joint return as if the tax-
11 able years of both spouses covered by the joint return
12 ended on the date of the closing of the surviving spouse's
13 taxable year.

14 **SEC. 104. EFFECTIVE DATE OF PART I.**

15 Except as provided in section 103, the amendments
16 made by this part shall be applicable only with respect to
17 taxable years ending after August 31, 1951. For treat-
18 ment of taxable years (other than the calendar year 1951)
19 beginning before September 1, 1951, and ending after
20 August 31, 1951, see section 131.

1 **PART II—CORPORATION INCOME TAXES**

2 **SEC. 121. INCREASE IN RATE OF CORPORATION NORMAL**
3 **TAX.**

4 (a) **AMENDMENT OF SECTION 13.**—Subsections (a)
5 and (b) of section 13 (relating to normal tax on corpora-
6 tions) are hereby amended to read as follows:

7 “(a) **DEFINITIONS.**—For the purposes of this chapter—

8 “(1) **ADJUSTED NET INCOME.**—The term ‘adjusted
9 net income’ means the net income minus the credit pro-
10 vided in section 26 (a), relating to interest on certain
11 obligations of the United States and Government
12 corporations.

13 “(2) **NORMAL-TAX NET INCOME.**—The term ‘nor-
14 mal-tax net income’ means the adjusted net income
15 minus the sum of the following credits:

16 “(A) The credit for dividends received pro-
17 vided in section 26 (b) ;

18 “(B) In the case of a public utility, the credit
19 for dividends paid on its preferred stock provided
20 in section 26 (h) ; and

21 “(C) In the case of a western hemisphere
22 trade corporation (as defined in section 109), the
23 credit provided in section 26 (i) .

24 “(b) **IMPOSITION OF TAX.**—There shall be levied,
25 collected, and paid for each taxable year upon the normal-

1 tax net income of every corporation (except a corporation
 2 subject to a tax imposed by section 231 (a), supplement
 3 G, or supplement Q) a tax of 30 per centum of the normal-
 4 tax net income.”

5 (b) MAXIMUM TAX.—Section 430 (a) (1) (relat-
 6 ing to the limitation on the rate of the excess profits tax) is
 7 hereby amended by striking out “62 per centum” and insert-
 8 ing in lieu thereof “70 per centum”.

9 (c) MUTUAL INSURANCE COMPANIES OTHER THAN
 10 LIFE OR MARINE.—

11 (1) Section 207 (a) (1) (relating to normal tax
 12 and surtax on mutual insurance companies, other than
 13 life or marine) is hereby amended by striking out sub-
 14 paragraphs (A) and (B) and inserting in lieu thereof
 15 the following:

16 “(A) Normal Tax.—A normal tax of 30 per
 17 centum of the normal-tax net income, or 60 per
 18 centum of the amount by which the normal-tax
 19 net income exceeds \$3,000, whichever is the lesser;
 20 plus

21 “(B) Surtax.—A surtax of 22 per centum
 22 of the corporation surtax net income in excess of
 23 \$25,000.”

24 (2) Section 207 (a) (3) (relating to a normal

1 tax and surtax on interinsurers and reciprocal under-
 2 writers) is hereby amended by striking out subpara-
 3 graphs (A) and (B) and inserting in lieu thereof the
 4 following:

5 “(A) Normal Tax.—A normal tax of 30 per
 6 centum of the normal-tax net income, or 60 per
 7 centum of the amount by which the normal-tax
 8 net income exceeds \$50,000, whichever is the
 9 lesser; plus

10 “(B) Surtax.—A surtax of 22 per centum of
 11 the corporation surtax net income in excess of
 12 \$25,000, or 33 per centum of the amount by which
 13 the corporation surtax net income exceeds \$50,000,
 14 whichever is the lesser.”

15 (d) REGULATED INVESTMENT COMPANIES.—Section
 16 362 (b) (relating to tax on regulated investment com-
 17 panies) is hereby amended by striking out paragraphs (3)
 18 and (4) and inserting in lieu thereof the following:

19 “(3) There shall be levied, collected, and paid for
 20 each taxable year upon its supplement Q net income a
 21 tax equal to 30 per centum of the amount thereof.

22 “(4) There shall be levied, collected, and paid for
 23 each taxable year upon its supplement Q surtax net
 24 income a tax equal to 22 per centum of the amount
 25 thereof in excess of \$25,000.”

1 (e) BUSINESS INCOME OF CERTAIN SECTION 101
2 ORGANIZATIONS.—Section 421 (a) (1) (relating to im-
3 position of tax on business income of certain section 101
4 organizations) is hereby amended by striking out “25 per
5 centum” and inserting in lieu thereof “30 per centum”.

6 (f) TECHNICAL AMENDMENTS.—

7 (1) REPEAL OF SECTION 14.—Section 14 (relat-
8 ing to normal tax on special classes of corporations in the
9 case of taxable years beginning before July 1, 1950)
10 is hereby repealed.

11 (2) AMENDMENT OF SECTION 15.—Section 15
12 (relating to surtax on corporations) is hereby amended
13 to read as follows:

14 **“SEC. 15. SURTAX ON CORPORATIONS.**

15 **“(a) CORPORATION SURTAX NET INCOME.**—For the
16 purposes of this chapter, the term ‘corporation surtax net
17 income’ means the net income minus the sum of the follow-
18 ing credits:

19 “(1) The credit for dividends received provided in
20 section 26 (b) ;

21 “(2) In the case of a public utility, the credit for
22 dividends paid on its preferred stock provided in section
23 26 (h) ;

24 “(3) In the case of a western hemisphere trade

1 corporation (as defined in section 109), the credit pro-
 2 vided in section 26 (i).

3 “(b) IMPOSITION OF TAX.—There shall be levied, col-
 4 lected, and paid for each taxable year upon the corporation
 5 surtax net income of every corporation (except a corporation
 6 subject to a tax imposed by section 231 (a), supplement G,
 7 or supplement Q) a surtax of 22 per centum of the amount
 8 of the corporation surtax net income in excess of the surtax
 9 exemption provided in section 26 (j).”

10 SEC. 122. CREDITS OF CORPORATIONS.

11 (a) DIVIDENDS RECEIVED CREDIT.—Paragraphs (1)
 12 and (2) of section 26 (b) (relating to credit for dividends
 13 received) are hereby amended to read as follows:

14 “(1) IN GENERAL.—85 per centum of the amount
 15 received as dividends (other than dividends described
 16 in paragraph (2) on the preferred stock of a public
 17 utility) from a domestic corporation which is subject to
 18 taxation under this chapter; and

19 “(2) CERTAIN PREFERRED STOCK.—62 per centum
 20 of the amount received as dividends on the preferred
 21 stock of a public utility which is subject to taxation under
 22 this chapter.”

23 (b) CREDIT FOR DIVIDENDS PAID ON CERTAIN PRE-
 24 FERRED STOCK.—The first sentence of section 26 (h) (1)
 25 (relating to amount of credit for dividends paid on certain

1 preferred stock) is hereby amended to read as follows: "In
 2 the case of a public utility, an amount equal to 27 per
 3 centum of the lesser of (A) the amount of dividends paid
 4 during the taxable year on its preferred stock or (B) the
 5 adjusted net income for such taxable year minus the credit
 6 for dividends received provided in subsection (b) for such
 7 year."

8 (c) WESTERN HEMISPHERE TRADE CORPORATIONS.—
 9 Section 26 (i) (relating to credit of a western hemisphere
 10 trade corporation) is hereby amended to read as follows:

11 " (i) WESTERN HEMISPHERE TRADE CORPORATIONS.—
 12 In the case of a western hemisphere trade corporation (as
 13 defined in section 109), an amount equal to 27 per centum
 14 of its normal-tax net income computed without regard to the
 15 credit provided in this subsection."

16 SEC. 123. SURTAX EXEMPTIONS AND CERTAIN CREDITS
 17 OF RELATED CORPORATIONS.

18 (a) LIMITATION ON SURTAX EXEMPTION IN THE
 19 CASE OF RELATED CORPORATIONS.—Section 26 (relating
 20 to credits of corporations) is hereby amended by adding at
 21 the end thereof the following new subsection:

22 " (j) SURTAX EXEMPTION.—

23 " (1) IN GENERAL.—Except in the case of a cor-
 24 poration to which paragraph (2) is applicable for the
 25 taxable year, a surtax exemption of \$25,000.

1 “(2) RELATED CORPORATIONS.—In the case of a
2 corporation which on December 31 of any year is a
3 member of a controlled group as defined in paragraph
4 (3), a surtax exemption, for the taxable year which
5 includes such date, in an amount equal to \$25,000
6 divided by the number of corporations in such group at
7 the close of such date. In lieu of such exemption, a
8 surtax exemption of \$25,000 for the controlled group
9 may be divided (in any manner) by the corporations
10 which at the close of such date are members of such
11 group by making and filing with the Secretary a consent
12 setting forth the portion of the \$25,000 which will
13 be taken by each member as its surtax exemption for
14 its taxable year which includes such date. The consent
15 shall be made and filed at such time and in such manner
16 as the Secretary by regulations may prescribe. If a
17 member of a controlled group has a taxable year which
18 does not include December 31, the surtax exemption for
19 such member for such taxable year shall be an amount
20 equal to \$25,000 divided by the number of corporations
21 in such group at the close of such taxable year.

22 “(3) DEFINITION OF CONTROLLED GROUP.—For
23 the purposes of paragraph (2), a ‘controlled group’
24 means:

25 “(A) Any group of one or more chains of

corporations connected through ownership with a common parent corporation if—

“(i) stock possessing at least 95 per centum of the voting power of all classes of stock of each of the corporations (except the common parent corporation) is owned directly by one or more of the other corporations; and

“(ii) the common parent corporation owns directly stock possessing at least 95 per centum of the voting power of all classes of stock of at least one of the other corporations, excluding, in computing such voting power, stock held by such other corporations.

“(B) Any group of two or more corporations if at least 95 per centum of the voting power of all classes of stock of each of the corporations is owned, directly or indirectly, by or for one individual, or is owned, directly or indirectly, by or for not more than five individuals each of whom owns substantially the same proportion of the voting power in any one of such corporations as he owns in each of the other corporations. For the purposes of this subparagraph—

“(i) an individual shall be considered as owning substantially the same proportion of the

1 voting power in any two corporations if, and
2 only if, he could own the same proportion of the
3 voting power in each by increasing by not more
4 than 10 per centum his voting power in one of
5 the corporations and decreasing by not more
6 than 10 per centum his voting power in the
7 other corporation;

8 “(ii) stock owned, directly or indirectly,
9 by or for a corporation, partnership, estate,
10 or trust, shall be considered as being owned
11 proportionately by or for its shareholders, part-
12 ners, or beneficiaries;

13 “(iii) an individual shall be considered as
14 owning the stock owned, directly or indirectly,
15 by or for his spouse;

16 “(iv) if an individual owns more than 50
17 per centum of the voting power in any corpora-
18 tion (including the voting power of the stock
19 owned by him upon the application of clauses
20 (ii) and (iii)), such individual shall be con-
21 sidered as owning the stock owned in such cor-
22 poration, directly or indirectly, by or for his
23 ancestors and lineal decedents;

24 “(v) stock constructively owned by a per-
25 son by reason of the application of clause (ii)

1 shall, for the purpose of applying clause (ii),
2 (iii), or (iv), be treated as actually owned by
3 such person, but stock constructively owned by
4 an individual by reason of the application of
5 clause (iii) or (iv) shall not be treated as
6 owned by him for the purpose of applying
7 either such clause in order to make another the
8 constructive owner of such stock; and

9 “(vi) if stock may be treated as construc-
10 tively owned by two or more individuals, such
11 stock shall, in any computation to determine
12 the proportionate voting power of such individ-
13 uals, be treated in such computation as construc-
14 tively owned by the individual whose construc-
15 tive ownership of such stock results in the
16 corporation being a member of a controlled
17 group.

18 If a group of corporations described in subparagraph
19 (B) includes a common parent corporation included in
20 a group described in subparagraph (A), then each
21 member of the group described in subparagraph (A) of
22 which the common parent corporation is a member shall
23 be a member of the group described in subparagraph
24 (B). For the purposes of this paragraph, treasury
25 stock shall not be considered to be voting stock.”

1 (b) **INSURANCE COMPANIES.**—Section 201 (g) (re-
2 lating to credits under section 26 allowed life insurance com-
3 panies) and section 204 (f) (relating to credits under sec-
4 tion 26 allowed to insurance companies other than life or
5 mutual) are each amended by adding at the end thereof
6 the following new sentence: “In computing the surtax im-
7 posed by this section, in the manner provided in section
8 15 (b), the surtax exemption provided in section 26 (j)
9 shall be allowed.”

10 (c) **MINIMUM EXCESS PROFITS CREDIT.**—The last
11 sentence of section 431 (relating to definition of adjusted
12 excess profits net income) is hereby amended to read as
13 follows: “If such sum is less than its surtax exemption
14 provided in section 26 (j) for the taxable year, such sum
15 shall be increased to the amount of its surtax exemption
16 for such year.”

17 **SEC. 124. COMPUTATION OF ALTERNATIVE CAPITAL GAINS**
18 **TAX.**

19 (a) **ALTERNATIVE TAX.**—Section 117 (c) (1) (relat-
20 ing to alternative tax on corporations) is hereby amended
21 by striking out the second paragraph and inserting in lieu
22 thereof the following:

1 “(A) A partial tax shall first be computed
2 upon the net income reduced by the amount of
3 such excess, at the rates and in the manner as if
4 this subsection had not been enacted.

5 “(B) There shall then be ascertained an
6 amount equal to 25 per centum of such excess.
7 In the case of taxable years to which the defense
8 tax provided in section 16 (c) is applicable, such
9 amount shall be increased by the percentage speci-
10 fied in such section.

11 “(C) The total tax shall be the partial tax
12 computed under subparagraph (A) plus the amount
13 computed under subparagraph (B).”

14 (b) **EFFECTIVE DATE.**—The amendment made by sub-
15 section (a) shall be applicable only with respect to taxable
16 years ending after August 31, 1951.

17 **SEC. 125. EFFECTIVE DATE.**

18 Except as provided in section 124, the amendments
19 made by this part shall be applicable only with respect to
20 taxable years beginning after December 31, 1950. For
21 treatment of taxable years beginning in 1950 and ending
22 in 1951, see part III of this title.

1 **PART III—FISCAL YEAR TAXPAYERS**

2 **SEC. 131. FISCAL YEAR TAXPAYERS.**

3 (a) **AMENDMENT OF SECTION 108.**—Section 108 is
4 hereby amended by striking out paragraph (2) of sub-
5 section (f) and inserting in lieu thereof the following:

6 “(2) that portion of a tentative tax consisting of—

7 “(A) a tentative normal tax of 25 per centum
8 of the normal-tax net income, plus

9 “(B) a tentative surtax of 20 per centum of
10 the surtax net income in excess of \$25,000,

11 which the number of days in such taxable year after
12 June 30, 1950, and before January 1, 1951, bears to the
13 total number of days in such taxable year, plus (if the
14 taxable year ends in 1951)

15 “(3) that portion of a tentative tax consisting of—

16 “(A) a tentative normal tax of 30 per centum
17 of the normal-tax net income, plus

18 “(B) a tentative surtax of 20 per centum of
19 the surtax net income in excess of \$25,000,

20 which the number of days in such taxable year after
21 December 31, 1950, bears to the total number of days
22 in such taxable year.

23 In computing for the purposes of paragraph (2) the normal-
24 tax net income and the corporation surtax net income, the
25 credits provided in section 26 applicable to taxable years

1 beginning on July 1, 1950, shall be allowed in the manner
2 and to the extent provided in sections 13 and 15
3 applicable to years beginning on such date, except that
4 such credits shall be applied without regard to the amend-
5 ments made to section 26 by title II of the Excess Profits
6 Tax Act of 1950. In computing for the purposes of para-
7 graph (3) the normal-tax net income and the corporation
8 surtax net income, the credits provided in section 26 appli-
9 cable to taxable years beginning on January 1, 1951, shall
10 be allowed in the manner and to the extent provided in sec-
11 tions 13 and 15 applicable to years beginning on such date.

12 “(g) TAXABLE YEARS OF CORPORATIONS BEGINNING
13 AFTER JUNE 30, 1950, AND BEFORE 1951, AND ENDING
14 IN 1951.—In the case of a taxable year of a corporation
15 beginning after June 30, 1950, and before January 1, 1951,
16 and ending after December 31, 1950, the tax imposed by
17 sections 13 and 15 shall be an amount equal to the sum of—

18 “(1) that portion of a tentative tax, computed
19 under the provisions of sections 13 and 15 applicable
20 to such taxable year, which the number of days in such
21 taxable year prior to January 1, 1951, bears to the
22 total number of days in such taxable year, plus

23 “(2) that portion of a tentative tax, computed
24 under the provisions of sections 13 and 15 applicable to
25 years beginning on January 1, 1951, as if such pro-

visions were applicable to such taxable year, which the number of days in such taxable year after December 31, 1950, bears to the total number of days in such taxable year. For the purposes of this paragraph a surtax exemption of \$25,000 shall be allowed in lieu of the exemption provided in section 26 (j).

“(h) CERTAIN TAXABLE YEARS OF INDIVIDUALS BEGINNING BEFORE SEPTEMBER 1, 1951, AND ENDING AFTER AUGUST 31, 1951.—In the case of a taxable year (other than one beginning on January 1, 1951, and ending on December 31, 1951) of a taxpayer, other than a corporation, beginning before September 1, 1951, and ending after August 31, 1951, the tax imposed by sections 11 and 12, section 400, or section 421 (a) (2), shall be an amount equal to the sum of—

“(1) that portion of a tentative tax, computed under the provisions of sections 11 and 12, or section 400, applicable to taxable years beginning on October 1, 1950, which the number of calendar months in such taxable year prior to September 1, 1951, bears to the total number of calendar months in such taxable year, plus

“(2) that portion of a tentative tax, computed under the provisions of sections 11 and 12, or section 400, applicable to years beginning on September 1,

1 1951, as if such provisions (other than the provisions
2 relating to head of household) were applicable to such
3 taxable year, which the number of calendar months
4 in such taxable year after August 31, 1951, bears to
5 the total number of calendar months in such taxable
6 year.

7 For the purposes of this subsection, a calendar month only
8 part of which falls within the taxable year (A) shall be
9 disregarded if less than 15 days of such month are included
10 in such taxable year, and (B) shall be included as a calendar
11 month within the taxable year if more than 14 days of such
12 month fall within the taxable year. This subsection shall
13 not apply in the case of a trust described in section 421
14 (b) (2) if the taxable year of such trust began before
15 January 1, 1951.”

16 (b) COMPUTATION OF EXCESS PROFITS TAX.—Sub-
17 section (b) of section 430 (relating to computation of ex-
18 cess profits tax in the case of certain taxable years) is hereby
19 amended to read as follows:

20 “(b) CERTAIN TAXABLE YEARS BEGINNING BEFORE
21 1951.—

22 “(1) TAXABLE YEARS ENDING BEFORE JANUARY
23 1, 1951.—In the case of a taxable year beginning be-
24 fore July 1, 1950, and ending after June 30, 1950, and
25 before January 1, 1951, the tax imposed by subsection

1 (a) shall be an amount equal to that portion of a tenta-
2 tive tax, computed under the provisions of subsection
3 (a) applicable to taxable years ending on December 31,
4 1950, which the number of days in such taxable year
5 after June 30, 1950, bears to the total number of days
6 in such taxable year.

7 “(2) TAXABLE YEARS ENDING AFTER DECEMBER
8 31, 1950.—In the case of a taxable year beginning
9 before January 1, 1951, and ending after December 31,
10 1950, the tax imposed by subsection (a) shall be an
11 amount equal to the sum of—

12 “(A) that portion of a tentative tax, com-
13 puted under the provisions of subsection (a) ap-
14 plicable to taxable years ending on December 31,
15 1950, which the number of days in such taxable
16 year after June 30, 1950, and before January 1,
17 1951, bears to the total number of days in such
18 taxable year, plus

19 “(B) that portion of a tentative tax, computed
20 under the provisions of subsection (a) applicable
21 to taxable years beginning on January 1, 1951,
22 which the number of days in such taxable year after
23 December 31, 1950, bears to the total number of
24 days in such taxable year.”

(c) TECHNICAL AMENDMENTS.—

(1) Section 108 (e) (2) is hereby amended by inserting after “section 400,” the following: “applicable to years beginning on October 1, 1950,”.

(2) Section 108 (g) is hereby amended by striking out “(g)” and inserting in lieu thereof “(i)”.

TITLE II—WITHHOLDING OF TAX AT SOURCE

PART I—WITHHOLDING OF TAX AT SOURCE ON

DIVIDENDS, INTEREST, AND ROYALTIES

SEC. 201. COLLECTION OF INCOME TAX AT SOURCE ON

DIVIDENDS, INTEREST, AND ROYALTIES.

Subtitle B of the Internal Revenue Code is hereby amended by inserting before chapter 7 the following new chapter:

“CHAPTER 6—COLLECTION OF INCOME TAX AT SOURCE ON DIVIDENDS, INTEREST, AND ROYALTIES

“Subchapter A—Dividends and Interest

“SEC. 1200. DEFINITIONS.

“As used in this chapter—

“(a) DIVIDEND.—The term ‘dividend’ means—

“(1) any distribution by a corporation which is a dividend as defined in section 115 (a) ; and

1 “(2) a payment made by a stockbroker to any per-
2 son as a substitute for a dividend (as defined in section
3 115 (a)) upon which a tax is required to be deducted
4 and withheld under this subchapter.

5 “(b) INTEREST.—The term ‘interest’ means—

6 “(1) interest on all bonds, debentures, notes, cer-
7 tificates, or other evidences of indebtedness, issued by
8 any corporation, with interest coupons or in registered
9 form;

10 “(2) interest on deposits with stockbrokers;

11 “(3) interest on amounts held by an insurance
12 company under an agreement to pay interest thereon;
13 and

14 “(4) interest on the overpayment of any internal
15 revenue tax, except income or excess profits taxes im-
16 posed upon corporations.

17 **“SEC. 1201. INCOME TAX COLLECTED AT SOURCE.**

18 “(a) REQUIREMENT OF WITHHOLDING.—Every per-
19 son making payment after December 31, 1951, of a dividend
20 or interest shall deduct and withhold upon such dividend or
21 interest a tax equal to 20 per centum of the amount thereof.
22 If the withholding agent is unable to determine the person
23 to whom the dividend or interest is payable, such tax shall
24 be deducted and withheld at the time payment thereof would

1 be made if such person were known. For certain exemptions
2 from withholding, see section 1202.

3 “(b) WITHHOLDING WHERE AMOUNT OF DIVIDEND
4 IS UNKNOWN.—If the withholding agent is unable to deter-
5 mine the portion of a distribution which is a dividend, the
6 tax required to be deducted and withheld under this sub-
7 chapter shall be computed on the entire amount of the
8 distribution.

9 “(c) INDEMNIFICATION OF WITHHOLDING AGENT.—
10 A withholding agent shall not be liable, except as provided
11 in section 1203, to any person for the amount of any tax
12 required to be deducted and withheld under this subchapter.

13 “(d) CREDIT FOR TAX WITHHELD.—For credit, against
14 the income tax of the recipient of the income, of amounts
15 required to be deducted and withheld under this subchapter,
16 see section 35.

17 **“SEC. 1202. EXEMPTIONS FROM WITHHOLDING.**

18 “The provisions of this chapter shall not apply to:

19 “(a) A dividend paid in the stock or rights to acquire
20 the stock of the distributing corporation, whether or not the
21 recipient of such stock or rights had an option to be paid
22 in money, or other property, in lieu of such stock or rights.

23 “(b) Distributions (other than capital gain dividends
24 described in section 362 (b) (7)) to shareholders which

1 are treated under chapter 1 as amounts received upon the
2 sale or exchange of property, or distributions with respect
3 to which gain or loss is not recognized under chapter 1 to
4 the shareholders.

5 “(c) Any amount which is includible in gross in-
6 come as a taxable dividend under the provisions of section
7 112 (c) (2) (relating to certain distributions made in pur-
8 suance of a plan of reorganization), section 115 (g) (relat-
9 ing to redemptions of stock), or section 371 (e) (2) (re-
10 lating to certain distributions pursuant to the order of the
11 Securities and Exchange Commission).

12 “(d) A dividend paid by a Federal reserve bank, Fed-
13 eral land bank, Federal home loan bank, Central Bank for
14 Cooperatives, or Bank for Cooperatives.

15 “(e) Any interest which, irrespective of the person to
16 whom payable, is wholly exempt from the tax imposed by
17 chapter 1.

18 “(f) Dividends or interest paid by a corporation to
19 another corporation if both corporations are members of
20 the same affiliated group which filed a consolidated return
21 under chapter 1 for the preceding taxable year of the payor
22 corporation.

23 “(g) Dividends or interest paid by a corporation to one
24 or more (1) governments, (2) political subdivisions thereof,

1 (3) international organizations, or (4) wholly owned in-
2 strumentalities or agencies of the foregoing, if the entire
3 class of stock in respect of which such dividend is paid, or the
4 entire class of obligations in respect of which such interest
5 is paid, is owned by one or more of such governments, sub-
6 divisions, organizations, instrumentalities, or agencies.

7 “(h) Interest on equipment trust certificates.

8 “(i) Dividends or interest paid by a foreign corpora-
9 tion, a nonresident alien individual, any partnership not en-
10 gaged in trade or business within the United States and
11 composed in whole or in part of nonresident aliens, or by
12 an international organization.

13 “(j) (1) Any payment of a dividend or interest (ex-
14 cept coupon bond interest) to (A) a foreign corporation
15 not engaged in trade or business within the United States,
16 (B) a nonresident alien individual, (C) any partnership
17 not engaged in trade or business within the United States
18 and composed in whole or in part of nonresident aliens, or
19 (D) any foreign government or international organization.

20 “(2) Any payment of coupon bond interest to a person
21 described in paragraph (1) of this subsection, but only if a
22 certificate filed (in such form and manner, and at such time,
23 as the Secretary may by regulations prescribe) with the
24 withholding agent discloses that the recipient of such pay-

1 ment is a person described in paragraph (1).

2 “(k) Any payment upon which the withholding agent
3 is required to deduct and withhold a tax under section 143
4 (a) (relating to tax-free covenant bonds, etc.) determined
5 without regard to the provisions of paragraph (2) of such
6 section.

7 “(l) Interest on an obligation of a corporation, issued
8 on or after January 1, 1934, and before January 1, 1951,
9 containing a contract or provision by which the obligor
10 agrees to pay the interest without deduction for any tax
11 which the obligor may be required to pay thereon or to re-
12 tain therefrom under any law of the United States.

13 “(m) Dividends paid pursuant to the terms of a lease
14 of property entered into prior to January 1, 1951, if under
15 such lease the shareholders of the lessor corporation are en-
16 titled to such dividends without deduction for any tax which
17 any law of the United States might require to be deducted
18 and withheld upon the payment of dividends.

19 “(n) Amounts (whether or not designated as divi-
20 dends) paid by a mutual savings bank, savings and loan
21 association, building and loan association, cooperative bank,
22 homestead association, credit union, or any similar organiza-
23 tion, in respect of withdrawable or repurchaseable shares,
24 investment certificates, or deposits.

1 **“SEC. 1203. RETURNS AND PAYMENT.**

2 “(a) **IN GENERAL.**—Every person required under this
3 subchapter to deduct and withhold any tax shall make a
4 return of such tax and shall pay such tax, at such time, for
5 such period, and in such manner as the Secretary may by
6 regulations prescribe, by making a return of the total amount
7 of dividends and interest with respect to which tax is
8 required to be deducted and withheld by such person under
9 this subchapter for such period and paying a tax, for which
10 such person shall be liable, in an amount equal to 20 per
11 centum of such total.

12 “(b) **ADJUSTMENT OF TAX.**—If more or less than the
13 correct amount of tax due for any period under subsection
14 (a) is paid with respect to such period, proper adjustments
15 with respect to the tax shall be made, without interest, in
16 such manner and at such times as may be prescribed by
17 regulations made under this subchapter.

18 **“SEC. 1204. CREDIT FOR REGULATED INVESTMENT COM-**
19 **PANIES AND PERSONAL HOLDING COMPANIES.**

20 “**In the case of any withholding agent which is a regu-**
21 **lated investment company as defined in section 361 or a**
22 **personal holding company as defined in section 501, the**
23 **amount required to be deducted and withheld as tax under**
24 **this chapter with respect to dividends and interest received**

1 by it during a taxable year shall be allowed, under regula-
2 tions prescribed by the Secretary, as a credit against (but
3 not in excess of) the tax for which such withholding agent
4 is liable under section 1203 (a) in respect of dividends and
5 interest paid by it during such year. For the purposes of
6 this section a dividend shall be considered as having been
7 paid within a taxable year (1) in the case of a regulated
8 investment company, if treated as paid during such taxable
9 year under section 362 (b) (8), or (2) in the case of a
10 personal holding company, if claimed under section 504 (c),
11 in computing undistributed subchapter A net income, in the
12 return for such year.

13 **“Subchapter B—Royalties**

14 **“SEC. 1220. DEFINITION OF ROYALTY.**

15 “As used in this chapter, the term ‘royalty’ means—
16 “(a) any rent or royalty in respect of mines, oil
17 and gas wells, and other natural deposits, including any
18 delay rental and any minimum royalty, whether or not
19 measured by production or by a share of gross or net
20 income therefrom, and any payment representing a
21 share of the gross or net income derived from the ex-
22 traction and sale of any natural deposit, but only if
23 the recipient of such rent, royalty, or payment is not
24 personally obligated to pay a proportionate share of
25 development or operating expenses. For the pur-

poses of this chapter, if a royalty, as defined in the preceding sentence, is paid in kind, such payment shall not constitute payment of a royalty, but if the mineral, oil, gas, or other natural deposit so received in kind is sold by or on behalf of the recipient to the producer or under a division order, the purchaser shall be considered as making payment of the royalty in an amount equal to the purchase price;

“(b) any payment, however designated, made by a corporation for the privilege of using any patent, pending application for a patent, copyright, secret process or formula, trade mark, or trade brand, including any payments made by an assignee or an exclusive licensee thereof, if measured by the use of a patent, pending application for a patent, copyright, secret process or formula, trade mark, or trade brand, or if payable over a period substantially coterminous with the period of the payor’s right to use such property, but not including any payments in respect of copyrights made to an organization to which subsection (c) is applicable; and

“(c) any payment made by an organization to its members in respect of the use of their copyrights, if such organization is authorized to license the use of such copyrights and has control of the receipt, allocation, and distribution of the payments made for such use.

1 **“SEC. 1221. INCOME TAX COLLECTED AT SOURCE.**

2 “(a) **REQUIREMENT OF WITHHOLDING.**—Every per-
3 son making payment after December 31, 1951, of a royalty
4 shall deduct and withhold upon such royalty a tax equal to
5 20 per centum of the amount thereof. If the withholding
6 agent is unable to determine the person to whom the royalty
7 is payable, such tax shall be deducted and withheld at the
8 time payment thereof would be made if such person were
9 known. For certain exemptions from withholding see sec-
10 tion 1222.

11 “(b) **TAX PAID BY RECIPIENT.**—If the withholding
12 agent, in violation of the provisions of this subchapter, fails
13 to deduct and withhold the tax under this subchapter, and
14 thereafter the tax against which such tax may be credited is
15 paid, the tax so required to be deducted and withheld shall
16 not be collected from the withholding agent, but this sub-
17 section shall in no case relieve the withholding agent from
18 liability for any penalties or additions to the tax otherwise
19 applicable in respect of such failure to deduct and withhold.

20 “(c) **LIABILITY FOR TAX.**—The withholding agent
21 shall be liable for the payment of the tax required to be
22 deducted and withheld under this subchapter, and shall not
23 be liable to any person for the amount of any such payment.

1 “(d) REFUNDS AND CREDITS.—

2 “(1) WITHHOLDING AGENT.—Where there has
3 been an overpayment of tax under this subchapter,
4 refund or credit shall be made to the withholding agent
5 only to the extent that the amount of such overpayment
6 was not deducted and withheld under this subchapter
7 by the withholding agent.

8 “(2) RECIPIENT.—For credit, against the income
9 tax of the recipient of the income, of amounts deducted
10 and withheld under this subchapter, see section 35.

11 “SEC. 1222. EXEMPTIONS FROM WITHHOLDING.

12 “The provisions of this chapter shall not apply to—

13 “(a) Royalties paid to a corporation or to a govern-
14 ment or political subdivision thereof.

15 “(b) Royalties paid by a foreign corporation, a non-
16 resident alien individual, a partnership not engaged in trade
17 or business within the United States and composed in whole
18 or in part of nonresident aliens, or an international organi-
19 zation.

20 “(c) Royalties paid to (1) a nonresident alien indi-
21 vidual, (2) a partnership not engaged in trade or business
22 within the United States and composed in whole or in part
23 of nonresident aliens, or (3) an international organization.

1 **“SEC. 1223. RETURNS AND PAYMENT.**

2 “(a) **IN GENERAL.**—Every person required under this
3 subchapter to deduct and withhold any tax shall make a
4 return of such tax and shall pay such tax, at such time, for
5 such period, and in such manner as the Secretary may by
6 regulations prescribe.

7 “(b) **ADJUSTMENT OF TAX.**—If more or less than the
8 correct amount of tax imposed by this subchapter is paid
9 with respect to any payment of royalties, proper adjustments,
10 with respect both to the tax and the amount to be deducted,
11 shall be made, without interest, in such manner and at such
12 times as may be prescribed by regulations made under this
13 subchapter.

14 **“SEC. 1224. RECEIPTS.**

15 “(a) **REQUIREMENT.**—Every person required under
16 this subchapter to deduct and withhold tax on a royalty,
17 shall, not later than January 31 of the year succeeding the
18 calendar year in which the royalty is paid, furnish to the
19 payee of the royalty a written statement showing the amount
20 of the royalties paid to such payee during such calendar
21 year, and the amount of tax deducted and withheld under
22 this subchapter in respect of such royalties.

23 “(b) **STATEMENTS TO CONSTITUTE INFORMATION**
24 **RETURNS.**—The statements required to be furnished by this

1 section in respect of any royalty shall be furnished at such
2 other times, shall contain such other information, and shall
3 be in such form as the Secretary may by regulations pre-
4 scribe. A duplicate of such statement if made and filed in
5 accordance with regulations prescribed by the Secretary shall
6 constitute the return required to be made in respect of such
7 royalties under section 147.

8 “(c) EXTENSION OF TIME.—The Secretary, under
9 regulations prescribed by him, may grant to any person a
10 reasonable extension of time (not in excess of 30 days) with
11 respect to the statements required to be furnished by such
12 person under this section.

13 **“SEC. 1225. PENALTIES.**

14 “(a) CRIMINAL PENALTY.—In lieu of any other pen-
15 alty provided by law (except the penalty provided by sub-
16 section (b) of this section), any person required under the
17 provisions of section 1224 to furnish a statement who will-
18 fully furnishes a false or fraudulent statement, or who will-
19 fully fails to furnish a statement in the manner, at the time,
20 and showing the information required under section 1224,
21 or regulations prescribed thereunder, shall for each such
22 offense, upon conviction thereof, be fined not more than
23 \$1,000, or imprisoned for not more than one year, or both.

24 “(b) CIVIL PENALTY.—In addition to the penalty pro-

1 vided by subsection (a) of this section, any person required
2 under the provisions of section 1224 to furnish a statement
3 who willfully furnishes a false or fraudulent statement, or
4 who willfully fails to furnish a statement in the manner, at
5 the time, and showing the information required under section
6 1224, or regulations prescribed thereunder, shall for each such
7 offense be subject to a civil penalty of not more than \$50.

“Subchapter C—General Provisions

“SEC. 1230. DEFINITIONS.

“As used in this chapter—

“ (a) **TAXABLE YEAR.**—The term ‘taxable year’ shall have the same meaning as when used in chapter 1.

“ (b) **PERSON.**—The term ‘person’ includes any government or political subdivision, or agency or instrumentality thereof.

“ (c) **NONRESIDENT ALIEN.**—The term ‘nonresident alien individual’ includes an alien resident of Puerto Rico.

**“SEC. 1231. NONDEDUCTIBILITY OF TAX IN COMPUTING
NET INCOME.**

“Any tax deducted and withheld under this chapter shall not be allowed as a deduction in computing net income for the purpose of any tax on income imposed by Act of Congress.

**“SEC. 1232. RETURN AND PAYMENT BY GOVERNMENTAL
PAYOR.**

“If the person referred to in section 1203 (a) or 1223 (a) is the United States, or a State, Territory, or political subdivision thereof, or the District of Columbia, or any agency or instrumentality of any one or more of the fore-

1 going, the return and payment required by such sections
2 shall be made by any officer or employee of the United
3 States, or of such State, Territory, or political subdivision,
4 or of the District of Columbia, or of such agency or instru-
5 mentality, as the case may be, having control of the payment
6 of the dividend, interest, or royalty, or appropriately desig-
7 nated for that purpose.

8 **“SEC. 1233. TAX-EXEMPT ORGANIZATIONS—REFUND.**

9 “In the case of a person which is exempt from the tax
10 imposed by chapter 1, if the amount required to be deducted
11 and withheld as tax under this chapter with respect to
12 dividends and interest received by it during any calendar
13 quarter, and the amount deducted and withheld as tax under
14 this chapter with respect to royalties received by it during
15 such calendar quarter, exceed the credit claimed by and
16 allowed to such person under section 1637 for such quarter,
17 the excess shall be immediately refunded or credited to such
18 person as an overpayment of the tax imposed by this chap-
19 ter, but only if claim therefor is filed (or, if no claim is
20 filed, if credit or refund is made) after the close of such
21 calendar quarter and on or before March 15 of the fourth
22 calendar year beginning after the close of such calendar
23 quarter. No interest shall be allowed or paid with respect
24 to any such refund or credit for any period prior to the date
25 on which claim for such refund or credit is filed or prior to

1 March 16 of the calendar year succeeding the close of the
2 calendar quarter in respect of which such refund or credit
3 is claimed, whichever date is the later.

4 **"SEC. 1234. FAILURE TO FILE RETURNS.**

5 "In case of a failure to make and file any return re-
6 quired under this chapter within the time prescribed by
7 law or prescribed by the Secretary in pursuance of law,
8 unless it is shown that such failure is due to reasonable cause
9 and not to willful neglect, the addition to the tax or taxes
10 required to be shown on such return shall not be less than \$5.

11 **"SEC. 1235. OTHER LAWS APPLICABLE.**

12 "All provisions of law, including penalties, applicable
13 with respect to any tax imposed by section 2700, and the
14 provisions of section 3661, shall, insofar as applicable and
15 not inconsistent with the provisions of this chapter, be ap-
16 plicable with respect to the tax under this chapter."

17 **SEC. 202. CREDIT FOR TAX WITHHELD.**

18 Section 35 (relating to credit against income tax) is
19 hereby amended as follows:

20 (1) by striking from the heading thereof the words

21 **"ON WAGES";**

22 (2) by inserting at the beginning of the first para-
23 graph thereof the following heading: "(a) CREDIT FOR
24 TAX WITHHELD ON WAGES.—"; and

1 (3) by inserting at the end thereof the following
2 new subsection:

3 “(b) CREDIT FOR TAX WITHHELD ON DIVIDENDS, IN-
4 TEREST, AND ROYALTIES.—Under regulations prescribed by
5 the Secretary—

6 “(1) IN GENERAL.—The amount required to be
7 deducted and withheld as tax under chapter 6 upon any
8 payment of a dividend or interest, and the amount de-
9 ducted and withheld as tax under such chapter upon
10 any payment of a royalty, shall be allowed as a credit,
11 to the recipient of the income, against the tax imposed
12 by this chapter for the taxable year in which the divi-
13 dend, interest, or royalty is received.

14 “(2) PARTNERSHIPS, TRUSTS, AND ESTATES.—If
15 the recipient of the dividend, interest, or royalty is a
16 partnership or a common trust fund, then the credit
17 shall not be allowed to such recipient, but the members
18 of the partnership, or the participants in the common
19 trust fund, as the case may be, shall be allowed their
20 proportionate share of such credit. If the recipient is
21 an estate or trust, and if any legatee, heir, or beneficiary
22 subject to the tax imposed by this chapter is required
23 to include a portion of such dividend, interest, or royalty
24 in computing his net income, such legatee, heir, or
25 beneficiary shall be allowed such portion of the credit

1 as is properly allocable to him on the basis of the in-
2 come allocable to him under section 162 for the tax-
3 able year of the estate or trust, and such portion of the
4 credit shall not be allowed to the estate or trust.

5 “(3) REGULATED INVESTMENT COMPANIES AND
6 PERSONAL HOLDING COMPANIES.—In the case of a regu-
7 lated investment company or a personal holding com-
8 pany, the credit provided in paragraph (1) shall be
9 reduced by the amount of credit allowed such company
10 under section 1204.

11 “(4) TAX EXEMPT ORGANIZATIONS.—The credit
12 provided by this subsection shall not be allowed to any
13 recipient which is exempt from income tax. For credit
14 against the liability of such a recipient in respect of the
15 employment taxes imposed by subchapter A and sub-
16 chapter D of chapter 9, see section 1637. For refund
17 under chapter 6 in the case of such a recipient, see
18 section 1233.”

19 **SEC. 203. CREDITS IN CASE OF ORGANIZATIONS EXEMPT**
20 **FROM TAX.**

21 Subchapter E of chapter 9 (relating to employment taxes)
22 is hereby amended by adding after section 1636 the following
23 new section:

1 **"SEC. 1637. SPECIAL CREDIT IN CASE OF ORGANIZATIONS**
2 **EXEMPT FROM INCOME TAX.**

3 "In the case of any person (including any government
4 or political subdivision, agency, or instrumentality thereof)
5 which is exempt from the tax imposed by chapter 1, the
6 amount required to be deducted and withheld as tax under
7 chapter 6 with respect to dividends and interest received
8 by it during any calendar quarter, and the amount deducted
9 and withheld as tax under such chapter with respect to
10 royalties received by it during such calendar quarter, shall
11 be allowed, under regulations prescribed by the Secretary,
12 as a credit against (but not in excess of) the amount shown
13 on the return of such person as its liability (after the adjust-
14 ments, if any, provided for in sections 1401 (c) and 1411)
15 for such quarter in respect of the taxes imposed by sub-
16 chapter A and subchapter D of this chapter. Such credit
17 shall be allowed only if claim therefor is made, in accord-
18 ance with such regulations, at the time of the filing of the
19 return under subchapter A and subchapter D for such quarter.
20 For refund under chapter 6, see section 1233."

21 **SEC. 204. TECHNICAL AMENDMENTS.**

22 (a) **TAX COMPUTED BY COLLECTOR.**—Section 51 (f)
23 (relating to tax computed by collector) is hereby amended
24 to read as follows:

25 “(f) **TAX COMPUTED BY COLLECTOR.**—

1 “(1) RETURN REQUIREMENTS.—An individual en-
2 titled to elect to pay the tax imposed by supplement T
3 whose gross income is less than \$5,000 and is entirely
4 from one or more of the following sources: wages as
5 defined in section 1621 (a), or dividends (other than
6 a capital gain dividend as defined in section 362 (b)
7 (7)) or interest on which tax is required to be deducted
8 and withheld under chapter 6, shall at his election be
9 relieved, by using the form prescribed as the form for
10 the return for the purposes of this subsection, from show-
11 ing on the return the tax imposed by this chapter. In
12 such case the tax shall be computed by the collector.

13 “(2) RESULT OF COMPUTATION.—After the col-
14 lector has computed the tax, he shall mail to the tax-
15 payer a notice stating the amount determined by the
16 collector as payable and making demand therefor.

17 “(3) REGULATIONS.—The Secretary shall prescribe
18 regulations for carrying out this subsection, and such
19 regulations may provide for the application of the rules
20 of this subsection to cases where the gross income in-
21 cludes items other than those enumerated in paragraph
22 (1) if the gross income from such other sources is not
23 more than \$200, and to cases where the gross income is
24 \$5,000 or more but not more than \$5,200. Such regu-
25 lations shall provide for the application of this sub-

1 section in the case of husband and wife, including pro-
2 visions determining when a joint return under this
3 subsection may be permitted or required and what con-
4 stitutes a joint return, whether the liability shall be joint
5 and several, and whether one spouse may make return
6 under this subsection and the other without regard to
7 this subsection.

8 “(4) METHOD OF ELECTION.—The election to
9 have the benefits of this subsection shall be made by
10 making return on the form prescribed as the form for
11 the return for the purposes of this subsection. An elec-
12 tion so made shall constitute an election to pay the tax
13 imposed by supplement T.”

14 (b) REQUIREMENT OF DECLARATION OF ESTIMATED
15 TAX.—Section 58 (a) (relating to declaration of estimated
16 tax) is hereby amended to read as follows:

17 “(a) REQUIREMENT OF DECLARATION.—Every in-
18 dividual (other than an estate or trust and other than a
19 nonresident alien with respect to whose wages, as defined
20 in section 1621 (a), withholding under subchapter D of
21 chapter 9 is not made applicable, but including every alien
22 individual who is a resident of Puerto Rico during the entire
23 taxable year) shall, at the time prescribed in subsection (d),

1 make a declaration of his estimated tax for the taxable
2 year if—

3 “(1) his gross income from wages (as defined in
4 section 1621) and from dividends, interest, and royal-
5 ties, as defined in chapter 6, upon which a tax is required
6 to be deducted and withheld under such chapter, can
7 reasonably be expected to exceed the sum of \$4,500
8 plus \$600 with respect to each exemption provided in
9 section 25 (b) ; or

10 “(2) his gross income from sources other than
11 wages (as defined in section 1621) and other than
12 dividends, interest, and royalties, as defined in chapter 6,
13 upon which a tax is required to be deducted and with-
14 held under such chapter, can reasonably be expected to
15 exceed \$100 for the taxable year and his gross income
16 to be \$600 or more.”

17 (c) CREDIT UNDER SECTION 143.—Section 143 (relat-
18 ing to withholding of tax at source) is hereby amended by
19 adding at the end thereof the following new subsection:

20 “(i) CREDIT FOR TAX WITHHELD AT SOURCE.—
21 Where any person is required to deduct and withhold a tax
22 under subsection (b) on an amount on which a tax was re-
23 quired to be deducted and withheld under subchapter A of
24 chapter 6, or on an amount on which a tax was deducted and

1 withheld under subchapter B of such chapter, such person
2 shall deduct and withhold only the excess of—

3 “(1) the amount which would be required to be
4 deducted and withheld under subsection (b) but for the
5 application of chapter 6, over

6 “(2) the amount required to be deducted and with-
7 held under subchapter A of chapter 6, or the amount
8 deducted and withheld under subchapter B of such
9 chapter, whichever is applicable.”

10 (d) CREDIT UNDER SECTION 144.—Section 144 (relat-
11 ing to payment of corporation income tax at source) is
12 hereby amended by striking out the period at the end
13 thereof and adding in lieu thereof the following: “: *Pro-*
14 *vided further*, That, where any person is required under
15 this section to deduct and withhold a tax on an amount
16 on which a tax was required to be deducted and withheld
17 under subchapter A of chapter 6, or on an amount on which
18 a tax was deducted and withheld under subchapter B of
19 such chapter, such person shall deduct and withhold only
20 the excess of—

21 “(1) the amount which would be required to be
22 deducted and withheld under this section but for the
23 application of chapter 6, over

1 “(2) the amount required to be deducted and with-
2 held under subchapter A of chapter 6, or the amount
3 deducted and withheld under subchapter B of such
4 chapter, whichever is applicable.”

5 (e) INFORMATION AT SOURCE.—Subsections (a) and
6 (b) of section 147 (relating to information at source) are
7 hereby amended to read as follows:

8 “(a) PAYMENTS OF RENT, SALARIES, INTEREST,
9 ETC.—All persons, in whatever capacity acting, including
10 lessees or mortgagors of real or personal property, fidu-
11 ciaries, and employers, making payment to another person,
12 of—

13 “(1) rent, salaries, wages, premiums, annuities,
14 compensations, remunerations, emoluments, or other
15 fixed or determinable gains, profits, and income (other
16 than payments described in section 148 (a) or 149), of
17 \$600 or more in any taxable year, or

18 “(2) interest, upon which tax is required to be
19 deducted and withheld under chapter 6, of \$300 or more
20 in any taxable year, or

21 “(3) interest, upon which tax is not required to be
22 deducted and withheld under chapter 6, of \$100 or more
23 in any taxable year,

1 or, in the case of such payments made by the United States,
2 the officers or employees of the United States having infor-
3 mation as to such payments and required to make returns
4 in regard thereto by the regulations hereinafter provided for,
5 shall render a true and accurate return to the Secretary,
6 under such regulations and in such form and manner and to
7 such extent as may be prescribed by him, setting forth the
8 amount of such gains, profits, and income, and the name and
9 address of the recipient of such payment.

10 “(b) RETURNS REGARDLESS OF AMOUNT OF PAY-
11 MENT.—Such returns may be required, regardless of
12 amounts, (1) in the case of payments of interest, and (2)
13 in the case of collections of items (not payable in the United
14 States) of interest upon the bonds of foreign countries and
15 interest upon the bonds of and dividends from foreign
16 corporations by persons undertaking as a matter of business
17 or for profit the collection of foreign payments of such
18 interest or dividends by means of coupons, checks, or bills
19 of exchange. This subsection shall not apply to payments
20 of interest (other than coupon bond interest) upon which
21 tax is required to be deducted and withheld under chapter 6.”

22 (f) INFORMATION BY CORPORATIONS.—Section 148

23 (a) (relating to information by corporations in the case of
24 dividend payments) is hereby amended by inserting a
25 comma in lieu of the period at the end thereof and adding

1 the following: "except that if the amount of dividends paid
2 to any shareholder during a calendar year is less than \$300
3 and tax is required to be deducted and withheld under chap-
4 ter 6 upon the entire amount of such dividends, no such
5 return shall be required with respect to such shareholder for
6 such calendar year."

7 (g) CLERICAL AMENDMENT.—Section 169 (b) (re-
8 lating to taxation of common trust funds) is hereby amended
9 by striking out "or chapter 6" and by striking out "chapters"
10 and inserting in lieu thereof "chapter".

11 (h) AMOUNT OF CREDIT CONSIDERED AS PAYMENT.—
12 Section 322 (a) (2) (relating to refunds and credits) is
13 hereby amended to read as follows:

14 "(2) TREATMENT OF CREDITS.—The amount of
15 the credit provided in section 35 against the tax for any
16 taxable year shall, to the extent thereof, be considered
17 as payment of the tax for such year, whether or not the
18 withholding agent has paid to the collector the amount
19 of the tax deducted and withheld at the source under
20 subchapter D of chapter 9 or subchapter B of chapter 6
21 or the amount of tax required to be deducted and with-
22 held at source under subchapter A of chapter 6."

23 (i) SPECIAL PERIOD OF LIMITATIONS FOR SMALL
24 REFUNDS ON TAX WITHHELD AT SOURCE.—Section 322
25 (b) (relating to statute of limitations on filing claim for

1 credit or refund) is hereby amended by adding at the end
2 thereof the following new paragraph:

3 “(7) SPECIAL PERIOD OF LIMITATIONS WITH RE-
4 SPECT TO CERTAIN OVERPAYMENTS RESULTING FROM
5 TAX WITHHELD ON DIVIDENDS, INTEREST, OR ROYAL-
6 TIES.—In the case of an individual filing a claim for
7 credit or refund of an overpayment for a taxable year
8 for which he was not required under section 51 (a) to
9 make a return, if the overpayment is attributable to the
10 credit allowed under section 35 for tax required to be
11 deducted and withheld under subchapter A of chapter 6
12 (relating to tax withheld at source on dividends and
13 interest) or for tax deducted and withheld under sub-
14 chapter B of such chapter (relating to tax withheld at
15 source on royalties), in lieu of the period of limitation
16 prescribed in paragraph (1), the period shall be seven
17 years from the date prescribed by law for filing a return
18 for the taxable year with respect to which the claim is
19 made. In such a case, the amount of credit or refund
20 may exceed the portion of the tax paid within the period
21 prescribed in paragraph (2), to the extent of the
22 amount of the overpayment attributable to such credit

1 allowed under section 35, or to the extent of \$2, which-
2 ever is the lesser.”

3 (j) PRESUMPTIONS AS TO DATE OF PAYMENT.—Sec-
4 tion 322 (e) (relating to presumption as to date of pay-
5 ment) is hereby amended to read as follows:

6 “(e) PRESUMPTIONS AS TO DATE OF PAYMENT.—For
7 the purpose of this section—

8 “(1) any amount allowable as a credit under sec-
9 tion 32 (relating to credit for tax withheld at source on
10 tax-free covenant bonds and on payments to nonresi-
11 dent aliens and foreign corporations) or under section
12 35 (relating to credit for tax withheld at source on
13 wages, dividends, interest, and royalties) shall, in re-
14 spect of the person entitled to such credit, be deemed
15 to have been paid by him on the last day prescribed
16 by law (determined without regard to any extension of
17 time granted the taxpayer) for the filing of the return
18 for his taxable year with respect to which such amount
19 is allowable as a credit; and

20 “(2) any amount paid as estimated tax for any
21 taxable year shall be deemed to have been paid on the
22 last day prescribed by law (determined without regard

1 to any extension of time granted the taxpayer) for the
2 filing of the return for such taxable year.”

3 (k) INTEREST ON OVERPAYMENTS.—Section 3771 (f)
4 is hereby amended to read as follows:

5 “(f) TAX WITHHELD AT SOURCE AND ESTIMATED
6 TAX.—

7 “(1) CLAIMS FILED UNDER SPECIAL PERIOD OF
8 LIMITATIONS PROVIDED IN SECTION 322 (b) (7).—If
9 credit or refund of the overpayment would be barred
10 under section 322 (b) except for paragraph (7) thereof,
11 no interest shall be allowed or paid with respect to the
12 overpayment for any period ending prior to the expira-
13 tion of six months after the date on which the claim
14 was filed.

15 “(2) CROSS REFERENCE.—For date of payment in
16 respect of estimated tax and tax withheld at source, see
17 section 322 (e).”

18 (l) DEFINITION OF WITHHOLDING AGENT.—Section
19 3797 (a) (16) is hereby amended by striking out “143 or
20 144”, and by inserting in lieu thereof “143, 144, 1201, or
21 1221”.

22 (m) EFFECTIVE DATE.—The amendments made by
23 subsections (a) and (b) shall be applicable to taxable years
24 beginning after December 31, 1951.

1 PART II—INCREASE IN WITHHOLDING OF TAX
2 AT SOURCE ON WAGES

3 SEC. 221. PERCENTAGE METHOD OF WITHHOLDING.

4 Section 1622 (a) (relating to percentage method of
5 withholding) is hereby amended by striking out “18 per
6 centum” and inserting in lieu thereof “20 per centum”.

7 SEC. 222. WAGE BRACKET WITHHOLDING.

8 The tables contained in section 1622 (c) (1) (relating
9 to wage bracket withholding) are hereby amended to read
10 as follows:

“If the payroll period with respect to an employee is weekly

And the wages are—		And the number of withholding exemptions claimed is—											
At least	But less than	0	1	2	3	4	5	6	7	8	9	10 or more	
		The amount of tax to be withheld shall be—											
\$0.	\$13.	20% of wages \$2.70	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	
\$13.	\$14.	.10	0	0	0	0	0	0	0	0	0	0	
\$14.	\$15.	2.90	.30	0	0	0	0	0	0	0	0	0	
\$15.	\$16.	3.10	.50	0	0	0	0	0	0	0	0	0	
\$16.	\$17.	3.30	.70	0	0	0	0	0	0	0	0	0	
\$17.	\$18.	3.50	.90	0	0	0	0	0	0	0	0	0	
\$18.	\$19.	3.70	1.20	0	0	0	0	0	0	0	0	0	
\$19.	\$20.	3.90	1.40	0	0	0	0	0	0	0	0	0	
\$20.	\$21.	4.20	1.60	0	0	0	0	0	0	0	0	0	
\$21.	\$22.	4.40	1.80	0	0	0	0	0	0	0	0	0	
\$22.	\$23.	4.60	2.00	0	0	0	0	0	0	0	0	0	
\$23.	\$24.	4.80	2.20	0	0	0	0	0	0	0	0	0	
\$24.	\$25.	5.00	2.40	0	0	0	0	0	0	0	0	0	
\$25.	\$26.	5.20	2.60	0	0	0	0	0	0	0	0	0	
\$26.	\$27.	5.40	2.80	.20	0	0	0	0	0	0	0	0	
\$27.	\$28.	5.60	3.00	.40	0	0	0	0	0	0	0	0	
\$28.	\$29.	5.80	3.20	.60	0	0	0	0	0	0	0	0	
\$29.	\$30.	6.00	3.40	.80	0	0	0	0	0	0	0	0	
\$30.	\$31.	6.20	3.60	1.00	0	0	0	0	0	0	0	0	
\$31.	\$32.	6.40	3.80	1.20	0	0	0	0	0	0	0	0	
\$32.	\$33.	6.60	4.00	1.40	0	0	0	0	0	0	0	0	
\$33.	\$34.	6.80	4.20	1.60	0	0	0	0	0	0	0	0	
\$34.	\$35.	7.00	4.40	1.80	0	0	0	0	0	0	0	0	
\$35.	\$36.	7.20	4.60	2.00	0	0	0	0	0	0	0	0	
\$36.	\$37.	7.40	4.80	2.20	0	0	0	0	0	0	0	0	
\$37.	\$38.	7.60	5.00	2.40	0	0	0	0	0	0	0	0	
\$38.	\$39.	7.80	5.20	2.60	0	0	0	0	0	0	0	0	
\$39.	\$40.	8.00	5.40	2.80	.20	0	0	0	0	0	0	0	
\$40.	\$41.	8.20	5.60	3.00	.40	0	0	0	0	0	0	0	
\$41.	\$42.	8.40	5.80	3.20	.60	0	0	0	0	0	0	0	
\$42.	\$43.	8.60	6.00	3.40	.80	0	0	0	0	0	0	0	
\$43.	\$44.	8.80	6.20	3.60	1.00	0	0	0	0	0	0	0	
\$44.	\$45.	9.00	6.40	3.80	1.20	0	0	0	0	0	0	0	
\$45.	\$46.	9.20	6.60	4.00	1.40	0	0	0	0	0	0	0	
\$46.	\$47.	9.40	6.80	4.20	1.60	0	0	0	0	0	0	0	
\$47.	\$48.	9.60	7.00	4.40	1.80	0	0	0	0	0	0	0	
\$48.	\$49.	9.80	7.20	4.60	2.00	0	0	0	0	0	0	0	
\$49.	\$50.	10.00	7.40	4.80	2.20	0	0	0	0	0	0	0	
\$50.	\$51.	10.20	7.60	5.00	2.40	0	0	0	0	0	0	0	
\$51.	\$52.	10.40	7.80	5.20	2.60	0	0	0	0	0	0	0	
\$52.	\$53.	10.60	8.00	5.40	2.80	.20	0	0	0	0	0	0	
\$53.	\$54.	10.80	8.20	5.60	3.00	.40	0	0	0	0	0	0	
\$54.	\$55.	11.00	8.40	5.80	3.20	.70	0	0	0	0	0	0	
\$55.	\$56.	11.20	8.60	6.00	3.50	.90	0	0	0	0	0	0	
\$56.	\$57.	11.40	8.80	6.20	3.70	1.10	0	0	0	0	0	0	
\$57.	\$58.	11.60	9.00	6.50	3.90	1.30	0	0	0	0	0	0	
\$58.	\$59.	11.80	9.30	6.70	4.10	1.50	0	0	0	0	0	0	
\$59.	\$60.	12.00	9.50	6.90	4.30	1.70	0	0	0	0	0	0	
\$60.	\$62.	12.40	9.80	7.20	4.60	2.00	0	0	0	0	0	0	
\$62.	\$64.	12.80	10.20	7.60	5.00	2.40	0	0	0	0	0	0	
\$64.	\$66.	13.20	10.60	8.00	5.40	2.80	.20	0	0	0	0	0	
\$66.	\$68.	13.60	11.00	8.40	5.80	3.20	.60	0	0	0	0	0	
\$68.	\$70.	14.00	11.40	8.80	6.20	3.60	1.00	0	0	0	0	0	
\$70.	\$72.	14.40	11.80	9.20	6.60	4.00	1.40	0	0	0	0	0	
\$72.	\$74.	14.80	12.20	9.60	7.00	4.40	1.80	0	0	0	0	0	
\$74.	\$76.	15.20	12.60	10.00	7.40	4.80	2.20	0	0	0	0	0	
\$76.	\$78.	15.60	13.00	10.40	7.80	5.20	2.60	0	0	0	0	0	
\$78.	\$80.	16.00	13.40	10.80	8.20	5.60	3.00	.40	0	0	0	0	
\$80.	\$82.	16.40	13.80	11.20	8.60	6.00	3.40	.80	0	0	0	0	
\$82.	\$84.	16.80	14.20	11.60	9.00	6.40	3.80	1.20	0	0	0	0	
\$84.	\$86.	17.20	14.60	12.00	9.40	6.80	4.20	1.60	0	0	0	0	
\$86.	\$88.	17.60	15.00	12.40	9.80	7.20	4.60	2.00	0	0	0	0	
\$88.	\$90.	18.00	15.40	12.80	10.20	7.60	5.00	2.40	0	0	0	0	
\$90.	\$92.	18.40	15.80	13.20	10.60	8.00	5.40	2.90	.30	0	0	0	
\$92.	\$94.	18.80	16.20	13.60	11.00	8.40	5.90	3.30	.70	0	0	0	
\$94.	\$96.	19.20	16.60	14.00	11.40	8.90	6.30	3.70	1.10	0	0	0	
\$96.	\$98.	19.60	17.00	14.50	11.90	9.30	6.70	4.10	1.50	0	0	0	
\$98.	\$100.	20.00	17.50	14.90	12.30	9.70	7.10	4.50	1.90	0	0	0	
\$100.	\$105.	20.80	18.20	15.60	13.00	10.40	7.80	5.20	2.60	0	0	0	
\$105.	\$110.	21.80	19.20	16.60	14.00	11.40	8.80	6.20	3.60	1.00	0	0	
\$110.	\$115.	22.80	20.20	17.60	15.00	12.40	9.80	7.20	4.60	2.00	0	0	
\$115.	\$120.	23.80	21.20	18.60	16.00	13.40	10.80	8.20	5.60	3.00	.40	0	
\$120.	\$125.	24.80	22.20	19.60	17.00	14.40	11.80	9.20	6.60	4.00	1.40	0	
\$125.	\$130.	25.80	23.20	20.60	18.00	15.40	12.80	10.20	7.60	5.00	2.50	0	
\$130.	\$135.	26.80	24.20	21.60	19.00	16.40	13.90	11.30	8.70	6.10	3.50	.90	
\$135.	\$140.	27.80	25.20	22.70	20.10	17.50	14.90	12.30	9.70	7.10	4.50	1.90	
\$140.	\$145.	28.90	26.30	23.70	21.10	18.50	15.90	13.30	10.70	8.10	5.50	2.90	
\$145.	\$150.	29.90	27.30	24.70	22.10	19.50	16.90	14.30	11.70	9.10	6.50	3.90	
\$150.	\$160.	31.40	28.80	26.20	23.60	21.00	18.40	15.80	13.20	10.60	8.00	5.40	
\$160.	\$170.	33.40	30.80	28.20	25.60	23.00	20.40	17.80	15.20	12.60	10.00	7.50	
\$170.	\$180.	35.40	32.80	30.20	27.60	25.10	22.50	19.90	17.30	14.70	12.10	9.50	
\$180.	\$190.	37.50	34.90	32.30	29.70	27.10	24.50	21.90	19.30	16.70	14.10	11.50	
\$190.	\$200.	39.50	36.90	34.30	31.70	29.10	26.50	23.90	21.30	18.70	16.10	13.50	
\$200 and over-----		20 percent of the excess over \$200 plus—											
		40.50	37.90	35.30	32.70	30.10	27.50	24.90	22.30	19.70	17.10	14.50	

"If the payroll period with respect to an employee is biweekly

And the wages are—		And the number of withholding exemptions claimed is—										
At least	But less than	0	1	2	3	4	5	6	7	8	9	10 or more
		The amount of tax to be withheld shall be—										
		20% of wages	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
\$0.....	\$26.....	\$5.50	.30	0	0	0	0	0	0	0	0	0
\$26.....	\$28.....	5.90	.70	0	0	0	0	0	0	0	0	0
\$28.....	\$30.....	6.30	1.10	0	0	0	0	0	0	0	0	0
\$30.....	\$32.....	6.70	1.50	0	0	0	0	0	0	0	0	0
\$32.....	\$34.....	7.10	1.90	0	0	0	0	0	0	0	0	0
\$34.....	\$36.....	7.50	2.30	0	0	0	0	0	0	0	0	0
\$36.....	\$38.....	7.90	2.70	0	0	0	0	0	0	0	0	0
\$38.....	\$40.....	8.30	3.10	0	0	0	0	0	0	0	0	0
\$40.....	\$42.....	8.70	3.50	0	0	0	0	0	0	0	0	0
\$42.....	\$44.....	9.10	3.90	0	0	0	0	0	0	0	0	0
\$44.....	\$46.....	9.50	4.30	0	0	0	0	0	0	0	0	0
\$46.....	\$48.....	9.90	4.70	0	0	0	0	0	0	0	0	0
\$48.....	\$50.....	10.30	5.10	0	0	0	0	0	0	0	0	0
\$50.....	\$52.....	10.70	5.50	.30	0	0	0	0	0	0	0	0
\$52.....	\$54.....	11.10	5.90	.80	0	0	0	0	0	0	0	0
\$54.....	\$56.....	11.50	6.40	1.20	0	0	0	0	0	0	0	0
\$56.....	\$58.....	11.90	6.80	1.60	0	0	0	0	0	0	0	0
\$58.....	\$60.....	12.40	7.20	2.00	0	0	0	0	0	0	0	0
\$60.....	\$62.....	12.80	7.60	2.40	0	0	0	0	0	0	0	0
\$62.....	\$64.....	13.20	8.00	2.80	0	0	0	0	0	0	0	0
\$64.....	\$66.....	13.60	8.40	3.20	0	0	0	0	0	0	0	0
\$66.....	\$68.....	14.00	8.80	3.60	0	0	0	0	0	0	0	0
\$68.....	\$70.....	14.40	9.20	4.00	0	0	0	0	0	0	0	0
\$70.....	\$72.....	14.80	9.60	4.40	0	0	0	0	0	0	0	0
\$72.....	\$74.....	15.20	10.00	4.80	0	0	0	0	0	0	0	0
\$74.....	\$76.....	15.60	10.40	5.20	0	0	0	0	0	0	0	0
\$76.....	\$78.....	16.00	10.80	5.60	.40	0	0	0	0	0	0	0
\$78.....	\$80.....	16.40	11.20	6.00	.80	0	0	0	0	0	0	0
\$80.....	\$82.....	16.80	11.60	6.40	1.20	0	0	0	0	0	0	0
\$82.....	\$84.....	17.20	12.00	6.80	1.60	0	0	0	0	0	0	0
\$84.....	\$86.....	17.60	12.40	7.20	2.00	0	0	0	0	0	0	0
\$86.....	\$88.....	18.00	12.80	7.60	2.40	0	0	0	0	0	0	0
\$88.....	\$90.....	18.40	13.20	8.00	2.90	0	0	0	0	0	0	0
\$90.....	\$92.....	18.80	13.60	8.40	3.30	0	0	0	0	0	0	0
\$92.....	\$94.....	19.20	14.00	8.90	3.70	0	0	0	0	0	0	0
\$94.....	\$96.....	19.60	14.50	9.30	4.10	0	0	0	0	0	0	0
\$96.....	\$98.....	20.00	14.90	9.70	4.50	0	0	0	0	0	0	0
\$98.....	\$100.....	20.50	15.30	10.10	4.90	0	0	0	0	0	0	0
\$100.....	\$102.....	20.90	15.70	10.50	5.30	.10	0	0	0	0	0	0
\$102.....	\$104.....	21.30	16.10	10.90	5.70	.50	0	0	0	0	0	0
\$104.....	\$106.....	21.70	16.50	11.30	6.10	.90	0	0	0	0	0	0
\$106.....	\$108.....	22.10	16.90	11.70	6.50	1.30	0	0	0	0	0	0
\$108.....	\$110.....	22.50	17.30	12.10	6.90	1.70	0	0	0	0	0	0
\$110.....	\$112.....	22.90	17.70	12.50	7.30	2.10	0	0	0	0	0	0
\$112.....	\$114.....	23.30	18.10	12.90	7.70	2.50	0	0	0	0	0	0
\$114.....	\$116.....	23.70	18.50	13.30	8.10	2.90	0	0	0	0	0	0
\$116.....	\$118.....	24.10	18.90	13.70	8.50	3.30	0	0	0	0	0	0
\$118.....	\$120.....	24.70	19.50	14.30	9.10	3.90	0	0	0	0	0	0
\$120.....	\$124.....	25.50	20.30	15.10	9.90	4.70	0	0	0	0	0	0
\$124.....	\$128.....	26.30	21.10	15.90	10.70	5.60	.40	0	0	0	0	0
\$128.....	\$132.....	27.10	21.90	16.80	11.60	6.40	1.20	0	0	0	0	0
\$132.....	\$136.....	27.90	22.80	17.60	12.40	7.20	2.00	0	0	0	0	0
\$136.....	\$140.....	28.80	23.60	18.40	13.20	8.00	2.80	0	0	0	0	0
\$140.....	\$144.....	29.60	24.40	19.20	14.00	8.80	3.60	0	0	0	0	0
\$144.....	\$148.....	30.40	25.20	20.00	14.80	9.60	4.40	0	0	0	0	0
\$148.....	\$152.....	31.20	26.00	20.80	15.60	10.40	5.20	0	0	0	0	0
\$152.....	\$156.....	32.00	26.80	21.60	16.40	11.20	6.00	.80	0	0	0	0
\$156.....	\$160.....	32.80	27.60	22.40	17.20	12.00	6.80	1.70	0	0	0	0
\$160.....	\$164.....	33.60	28.40	23.20	18.00	12.80	7.70	2.50	0	0	0	0
\$164.....	\$168.....	34.40	29.20	24.00	18.80	13.70	8.50	3.30	0	0	0	0
\$168.....	\$172.....	35.20	30.00	24.90	19.70	14.50	9.30	4.10	0	0	0	0
\$172.....	\$176.....	36.00	30.90	25.70	20.50	15.30	10.10	4.90	0	0	0	0
\$176.....	\$180.....	36.90	31.70	26.50	21.30	16.10	10.90	5.70	.50	0	0	0
\$180.....	\$184.....	37.70	32.50	27.30	22.10	16.90	11.70	6.50	1.30	0	0	0
\$184.....	\$188.....	38.50	33.30	28.10	22.90	17.70	12.50	7.30	2.10	0	0	0
\$188.....	\$192.....	39.30	34.10	28.90	23.70	18.50	13.30	8.10	2.90	0	0	0
\$192.....	\$196.....	40.10	34.90	29.70	24.50	19.30	14.10	8.90	3.70	0	0	0
\$196.....	\$200.....	41.50	36.30	31.10	25.90	20.70	15.60	10.40	5.20	0	0	0
\$200.....	\$210.....	43.50	38.30	33.20	28.00	22.80	17.60	12.40	7.20	2.00	0	0
\$210.....	\$220.....	45.60	40.40	35.20	30.00	24.80	19.60	14.40	9.20	4.00	0	0
\$220.....	\$230.....	47.60	42.40	37.20	32.00	26.80	21.60	16.40	11.20	6.00	.90	0
\$230.....	\$240.....	49.60	44.40	39.20	34.00	28.80	23.70	18.50	13.30	8.10	2.90	0
\$240.....	\$250.....	51.60	46.40	41.30	36.10	30.90	25.70	20.50	15.30	10.10	4.90	0
\$250.....	\$260.....	53.70	48.50	43.30	38.10	32.90	27.70	22.50	17.30	12.10	6.90	1.70
\$260.....	\$270.....	55.70	50.50	45.30	40.10	34.90	29.70	24.50	19.30	14.10	9.00	3.80
\$270.....	\$280.....	57.70	52.50	47.30	42.10	36.90	31.80	26.60	21.40	16.20	11.00	5.80
\$280.....	\$290.....	59.70	54.50	49.40	44.20	39.00	33.80	28.60	23.40	18.20	13.00	7.80
\$290.....	\$300.....	62.80	57.60	52.40	47.20	42.00	36.80	31.60	26.40	21.20	16.00	10.90
\$300.....	\$320.....	66.80	61.60	56.40	51.20	46.10	40.90	35.70	30.50	25.30	20.10	14.90
\$320.....	\$340.....	70.90	65.70	60.50	55.30	50.10	44.90	39.70	34.50	29.30	24.10	19.00
\$340.....	\$360.....	74.90	69.70	64.50	59.30	54.20	49.00	43.80	38.60	33.40	28.20	23.00
\$360.....	\$380.....	79.00	73.80	68.60	63.40	58.20	53.00	47.80	42.60	37.40	32.20	27.10
\$380.....	\$400.....											
\$400 and over.....		20 percent of the excess over \$400 plus—										
		81.00	75.80	70.60	65.40	60.20	55.00	49.80	44.70	39.50	34.30	29.10

“If the payroll period with respect to an employee is semimonthly

And the wages are—		And the number of withholding exemptions claimed is—											
At least	But less than	0	1	2	3	4	5	6	7	8	9	10 or more	
		The amount of tax to be withheld shall be—											
\$0.....	\$28.....	20% of wages \$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	
\$28.....	\$30.....	\$5.90	.20	0	0	0	0	0	0	0	0	0	
\$30.....	\$32.....	6.30	.70	0	0	0	0	0	0	0	0	0	
\$32.....	\$34.....	6.70	1.10	0	0	0	0	0	0	0	0	0	
\$34.....	\$36.....	7.10	1.50	0	0	0	0	0	0	0	0	0	
\$36.....	\$38.....	7.50	1.90	0	0	0	0	0	0	0	0	0	
\$38.....	\$40.....	7.90	2.30	0	0	0	0	0	0	0	0	0	
\$40.....	\$42.....	8.30	2.70	0	0	0	0	0	0	0	0	0	
\$42.....	\$44.....	8.70	3.10	0	0	0	0	0	0	0	0	0	
\$44.....	\$46.....	9.10	3.50	0	0	0	0	0	0	0	0	0	
\$46.....	\$48.....	9.50	3.90	0	0	0	0	0	0	0	0	0	
\$48.....	\$50.....	9.90	4.30	0	0	0	0	0	0	0	0	0	
\$50.....	\$52.....	10.30	4.70	0	0	0	0	0	0	0	0	0	
\$52.....	\$54.....	10.70	5.10	0	0	0	0	0	0	0	0	0	
\$54.....	\$56.....	11.10	5.50	0	0	0	0	0	0	0	0	0	
\$56.....	\$58.....	11.50	5.90	.30	0	0	0	0	0	0	0	0	
\$58.....	\$60.....	11.90	6.30	.70	0	0	0	0	0	0	0	0	
\$60.....	\$62.....	12.40	6.70	1.10	0	0	0	0	0	0	0	0	
\$62.....	\$64.....	12.80	7.10	1.50	0	0	0	0	0	0	0	0	
\$64.....	\$66.....	13.20	7.50	1.90	0	0	0	0	0	0	0	0	
\$66.....	\$68.....	13.60	7.90	2.30	0	0	0	0	0	0	0	0	
\$68.....	\$70.....	14.00	8.30	2.70	0	0	0	0	0	0	0	0	
\$70.....	\$72.....	14.40	8.80	3.10	0	0	0	0	0	0	0	0	
\$72.....	\$74.....	14.80	9.20	3.50	0	0	0	0	0	0	0	0	
\$74.....	\$76.....	15.20	9.60	3.90	0	0	0	0	0	0	0	0	
\$76.....	\$78.....	15.60	10.00	4.30	0	0	0	0	0	0	0	0	
\$78.....	\$80.....	16.00	10.40	4.70	0	0	0	0	0	0	0	0	
\$80.....	\$82.....	16.40	10.80	5.20	0	0	0	0	0	0	0	0	
\$82.....	\$84.....	16.80	11.20	5.60	0	0	0	0	0	0	0	0	
\$84.....	\$86.....	17.20	11.60	6.00	.30	0	0	0	0	0	0	0	
\$86.....	\$88.....	17.60	12.00	6.40	.70	0	0	0	0	0	0	0	
\$88.....	\$90.....	18.00	12.40	6.80	1.10	0	0	0	0	0	0	0	
\$90.....	\$92.....	18.40	12.80	7.20	1.60	0	0	0	0	0	0	0	
\$92.....	\$94.....	18.80	13.20	7.60	2.00	0	0	0	0	0	0	0	
\$94.....	\$96.....	19.20	13.60	8.00	2.40	0	0	0	0	0	0	0	
\$96.....	\$98.....	19.60	14.00	8.40	2.80	0	0	0	0	0	0	0	
\$98.....	\$100.....	20.00	14.40	8.80	3.20	0	0	0	0	0	0	0	
\$100.....	\$102.....	20.50	14.80	9.20	3.60	0	0	0	0	0	0	0	
\$102.....	\$104.....	20.90	15.20	9.60	4.00	0	0	0	0	0	0	0	
\$104.....	\$106.....	21.30	15.60	10.00	4.40	0	0	0	0	0	0	0	
\$106.....	\$108.....	21.70	16.00	10.40	4.80	0	0	0	0	0	0	0	
\$108.....	\$110.....	22.10	16.40	10.80	5.20	0	0	0	0	0	0	0	
\$110.....	\$112.....	22.50	16.90	11.20	5.60	0	0	0	0	0	0	0	
\$112.....	\$114.....	22.90	17.30	11.60	6.00	.40	0	0	0	0	0	0	
\$114.....	\$116.....	23.30	17.70	12.00	6.40	.80	0	0	0	0	0	0	
\$116.....	\$118.....	23.70	18.10	12.40	6.80	1.20	0	0	0	0	0	0	
\$118.....	\$120.....	24.10	18.50	12.80	7.20	1.60	0	0	0	0	0	0	
\$120.....	\$124.....	24.70	19.10	13.50	7.80	2.20	0	0	0	0	0	0	
\$124.....	\$128.....	25.50	19.90	14.30	8.60	3.00	0	0	0	0	0	0	
\$128.....	\$132.....	26.30	20.70	15.10	9.50	3.80	0	0	0	0	0	0	
\$132.....	\$136.....	27.10	21.50	15.90	10.30	4.60	0	0	0	0	0	0	
\$136.....	\$140.....	27.90	22.30	16.70	11.10	5.40	0	0	0	0	0	0	
\$140.....	\$144.....	28.80	23.10	17.50	11.90	6.30	.60	0	0	0	0	0	
\$144.....	\$148.....	29.60	23.90	18.30	12.70	7.10	1.40	0	0	0	0	0	
\$148.....	\$152.....	30.40	24.80	19.10	13.50	7.90	2.30	0	0	0	0	0	
\$152.....	\$156.....	31.20	25.60	19.90	14.30	8.70	3.10	0	0	0	0	0	
\$156.....	\$160.....	32.00	26.40	20.70	15.10	9.50	3.90	0	0	0	0	0	
\$160.....	\$164.....	32.80	27.20	21.60	15.90	10.30	4.70	0	0	0	0	0	
\$164.....	\$168.....	33.60	28.00	22.40	16.70	11.10	5.50	0	0	0	0	0	
\$168.....	\$172.....	34.40	28.80	23.20	17.60	11.90	6.30	.70	0	0	0	0	
\$172.....	\$176.....	35.20	29.60	24.00	18.40	12.70	7.10	1.50	0	0	0	0	
\$176.....	\$180.....	36.00	30.40	24.80	19.20	13.50	7.90	2.30	0	0	0	0	
\$180.....	\$184.....	36.90	31.20	25.60	20.00	14.40	8.70	3.10	0	0	0	0	
\$184.....	\$188.....	37.70	32.00	26.40	20.80	15.20	9.50	3.90	0	0	0	0	
\$188.....	\$192.....	38.50	32.90	27.20	21.60	16.00	10.40	4.70	0	0	0	0	
\$192.....	\$196.....	39.30	33.70	28.00	22.40	16.80	11.20	5.50	0	0	0	0	
\$196.....	\$200.....	40.10	34.50	28.80	23.20	17.60	12.00	6.30	.70	0	0	0	
\$200.....	\$210.....	41.50	35.90	30.30	24.60	19.00	13.40	7.80	2.10	0	0	0	
\$210.....	\$220.....	43.50	37.90	32.30	26.70	21.00	15.40	9.80	4.20	0	0	0	
\$220.....	\$230.....	45.60	39.90	34.30	28.70	23.10	17.40	11.80	6.20	.60	0	0	
\$230.....	\$240.....	47.60	42.00	36.30	30.70	25.10	19.50	13.80	8.20	2.60	0	0	
\$240.....	\$250.....	49.60	44.00	38.40	32.70	27.10	21.50	15.00	10.20	4.60	0	0	
\$250.....	\$260.....	51.60	46.00	40.40	34.80	29.10	23.50	17.90	12.30	6.60	1.00	0	
\$260.....	\$270.....	53.70	48.00	42.40	36.80	31.20	25.50	19.90	14.30	8.70	3.00	0	
\$270.....	\$280.....	55.70	50.10	44.40	38.80	33.20	27.60	21.90	16.30	10.70	5.10	0	
\$280.....	\$290.....	57.70	52.10	46.50	40.80	35.20	29.60	24.00	18.30	12.70	7.10	1.50	
\$290.....	\$300.....	59.70	54.10	48.50	42.90	37.20	31.60	26.00	20.40	14.70	9.10	3.50	
\$300.....	\$320.....	62.80	57.20	51.50	45.90	40.30	34.70	29.00	23.40	17.80	12.20	6.50	
\$320.....	\$340.....	66.80	61.20	55.60	50.00	44.30	38.70	33.10	27.50	21.80	16.20	10.60	
\$340.....	\$360.....	70.90	65.30	59.60	54.00	48.40	42.80	37.10	31.50	25.90	20.30	14.60	
\$360.....	\$380.....	74.90	69.30	63.70	58.10	52.40	46.80	41.20	35.60	29.90	24.30	18.70	
\$380.....	\$400.....	79.00	73.40	67.70	62.10	56.50	50.90	45.20	39.60	34.00	28.40	22.70	
\$400.....	\$420.....	83.00	77.40	71.80	66.20	60.50	54.90	49.30	43.70	38.00	32.40	26.80	
\$420.....	\$440.....	87.10	81.50	75.80	70.20	64.60	59.00	53.30	47.70	42.10	36.50	30.80	
\$440.....	\$460.....	91.10	85.50	79.90	74.30	68.60	63.00	57.40	51.80	46.10	40.50	34.90	
\$460.....	\$480.....	95.20	89.60	83.90	78.30	72.70	67.10	61.40	55.80	50.20	44.60	38.90	
\$480.....	\$500.....	99.20	93.60	88.00	82.40	76.70	71.10	65.50	59.90	54.20	48.60	43.00	
\$500 and over.....		20 percent of the excess over \$500 plus—											
		101.30	95.60	90.00	84.40	78.80	73.10	67.50	61.90	56.30	50.60	45.00	

"If the payroll period with respect to an employee is monthly

And the wages are—		And the number of withholding exemptions claimed is—										
At least	But less than	0	1	2	3	4	5	6	7	8	9	10 or more
The amount of tax to be withheld shall be—												
		20% of wages	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
\$0	\$56	\$11.70	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
\$56	\$60	12.60	1.30	0	0	0	0	0	0	0	0	0
\$60	\$64	13.40	2.10	0	0	0	0	0	0	0	0	0
\$64	\$68	14.20	2.90	0	0	0	0	0	0	0	0	0
\$68	\$72	15.00	3.70	0	0	0	0	0	0	0	0	0
\$72	\$76	15.80	4.50	0	0	0	0	0	0	0	0	0
\$76	\$80	16.60	5.40	0	0	0	0	0	0	0	0	0
\$80	\$84	17.40	6.20	0	0	0	0	0	0	0	0	0
\$84	\$88	18.20	7.00	0	0	0	0	0	0	0	0	0
\$88	\$92	19.00	7.80	0	0	0	0	0	0	0	0	0
\$92	\$96	19.80	8.60	0	0	0	0	0	0	0	0	0
\$96	\$100	20.70	9.40	0	0	0	0	0	0	0	0	0
\$100	\$104	21.50	10.20	0	0	0	0	0	0	0	0	0
\$104	\$108	22.30	11.00	0	0	0	0	0	0	0	0	0
\$108	\$112	23.10	11.80	0	0	0	0	0	0	0	0	0
\$112	\$116	23.90	12.60	1.40	0	0	0	0	0	0	0	0
\$116	\$120	24.70	13.50	2.20	0	0	0	0	0	0	0	0
\$120	\$124	25.50	14.30	3.00	0	0	0	0	0	0	0	0
\$124	\$128	26.30	15.10	3.80	0	0	0	0	0	0	0	0
\$128	\$132	27.10	15.90	4.60	0	0	0	0	0	0	0	0
\$132	\$136	27.90	16.70	5.40	0	0	0	0	0	0	0	0
\$136	\$140	28.80	17.50	6.30	0	0	0	0	0	0	0	0
\$140	\$144	29.60	18.30	7.10	0	0	0	0	0	0	0	0
\$144	\$148	30.40	19.10	7.90	0	0	0	0	0	0	0	0
\$148	\$152	31.20	19.90	8.70	0	0	0	0	0	0	0	0
\$152	\$156	32.00	20.70	9.50	0	0	0	0	0	0	0	0
\$156	\$160	32.80	21.60	10.30	0	0	0	0	0	0	0	0
\$160	\$164	33.60	22.40	11.10	0	0	0	0	0	0	0	0
\$164	\$168	34.40	23.20	11.90	0	0	0	0	0	0	0	0
\$168	\$172	35.20	24.00	12.70	1.50	0	0	0	0	0	0	0
\$172	\$176	36.00	24.80	13.50	2.30	0	0	0	0	0	0	0
\$176	\$180	36.90	25.60	14.40	3.10	0	0	0	0	0	0	0
\$180	\$184	37.70	26.40	15.20	3.90	0	0	0	0	0	0	0
\$184	\$188	38.50	27.20	16.00	4.70	0	0	0	0	0	0	0
\$188	\$192	39.30	28.00	16.80	5.50	0	0	0	0	0	0	0
\$192	\$196	40.10	28.80	17.60	6.30	0	0	0	0	0	0	0
\$196	\$200	40.90	29.70	18.40	7.20	0	0	0	0	0	0	0
\$200	\$204	41.70	30.50	19.20	8.00	0	0	0	0	0	0	0
\$204	\$208	42.50	31.30	20.00	8.80	0	0	0	0	0	0	0
\$208	\$212	43.30	32.10	20.80	9.60	0	0	0	0	0	0	0
\$212	\$216	44.10	32.90	21.60	10.40	0	0	0	0	0	0	0
\$216	\$220	45.00	33.70	22.50	11.20	0	0	0	0	0	0	0
\$220	\$224	45.80	34.50	23.30	12.00	.80	0	0	0	0	0	0
\$224	\$228	46.60	35.30	24.10	12.80	1.60	0	0	0	0	0	0
\$228	\$232	47.40	36.10	24.90	13.60	2.40	0	0	0	0	0	0
\$232	\$236	48.20	36.90	25.70	14.40	3.20	0	0	0	0	0	0
\$236	\$240	49.40	38.20	26.90	15.70	4.40	0	0	0	0	0	0
\$240	\$248	51.00	39.80	28.50	17.30	6.00	0	0	0	0	0	0
\$248	\$256	52.70	41.40	30.20	18.90	7.70	0	0	0	0	0	0
\$256	\$264	54.30	43.00	31.80	20.50	9.30	0	0	0	0	0	0
\$264	\$272	55.90	44.60	33.40	22.10	10.90	0	0	0	0	0	0
\$272	\$280	57.50	46.30	35.00	23.80	12.50	1.30	0	0	0	0	0
\$280	\$288	59.10	47.90	36.60	25.40	14.10	2.90	0	0	0	0	0
\$288	\$296	60.80	49.50	38.30	27.00	15.80	4.50	0	0	0	0	0
\$296	\$304	62.40	51.10	39.90	28.60	17.40	6.10	0	0	0	0	0
\$304	\$312	64.00	52.70	41.50	30.20	19.00	7.70	0	0	0	0	0
\$312	\$320	65.60	54.40	43.10	31.90	20.60	9.40	0	0	0	0	0
\$320	\$328	67.20	56.00	44.70	33.50	22.20	11.00	0	0	0	0	0
\$328	\$336	68.90	57.60	46.40	35.10	23.90	12.60	1.40	0	0	0	0
\$336	\$344	70.50	59.20	48.00	36.70	25.50	14.20	3.00	0	0	0	0
\$344	\$352	72.10	60.80	49.60	38.30	27.10	15.80	4.60	0	0	0	0
\$352	\$360	73.70	62.50	51.20	40.00	28.70	17.50	6.20	0	0	0	0
\$360	\$368	75.30	64.10	52.80	41.60	30.30	19.10	7.80	0	0	0	0
\$368	\$376	77.00	65.70	54.50	43.20	32.00	20.70	9.50	0	0	0	0
\$376	\$384	78.60	67.30	56.10	44.80	33.60	22.30	11.10	0	0	0	0
\$384	\$392	80.20	68.90	57.70	46.40	35.20	23.90	12.70	1.40	0	0	0
\$392	\$400	83.00	71.80	60.50	49.30	38.00	26.80	15.50	4.30	0	0	0
\$400	\$420	87.10	75.80	64.60	53.30	42.10	30.80	19.60	8.30	0	0	0
\$420	\$440	91.10	79.90	68.60	57.40	46.10	34.90	23.60	12.40	1.10	0	0
\$440	\$460	95.20	83.90	72.70	61.40	50.20	38.90	27.70	16.40	5.20	0	0
\$460	\$480	99.20	88.00	76.70	65.50	54.20	43.00	31.70	20.50	9.20	0	0
\$480	\$500	103.30	92.00	80.80	69.50	58.30	47.00	35.80	24.50	13.30	2.00	0
\$500	\$520	107.30	96.10	84.80	73.60	62.30	51.10	39.80	28.60	17.30	6.10	0
\$520	\$540	111.40	100.10	88.90	77.60	66.40	55.10	43.90	32.60	21.40	10.10	0
\$540	\$560	115.40	104.20	92.90	81.70	70.40	59.20	47.90	36.70	25.40	14.20	2.90
\$560	\$580	119.50	108.20	97.00	85.70	74.50	63.20	52.00	40.70	29.50	18.20	7.00
\$580	\$600	125.60	114.30	103.10	91.80	80.60	69.30	58.10	46.80	35.60	24.30	13.10
\$600	\$640	133.70	122.40	111.20	99.90	88.70	77.40	66.20	54.90	43.70	32.40	21.20
\$640	\$680	141.80	130.50	119.30	108.00	96.80	85.50	74.30	63.00	51.80	40.50	29.30
\$680	\$720	149.90	138.60	127.40	116.10	104.90	93.60	82.40	71.10	59.90	48.60	37.40
\$720	\$760	158.00	146.70	135.50	124.20	113.00	101.70	90.50	79.20	68.00	56.70	45.50
\$760	\$800	166.10	154.80	143.60	132.30	121.10	109.80	98.60	87.30	76.10	64.80	53.60
\$800	\$840	174.20	162.90	151.70	140.40	129.20	117.90	106.70	95.40	84.20	72.90	61.70
\$840	\$880	182.30	171.00	159.80	148.50	137.30	126.00	114.80	103.50	92.30	81.00	69.80
\$880	\$920	190.40	179.10	167.90	156.60	145.40	134.10	122.90	111.60	100.40	89.10	77.90
\$920	\$960	198.50	187.20	176.00	164.70	153.50	142.20	131.00	119.70	108.50	97.20	86.00
\$960	\$1,000											
\$1,000 and over		20 percent of the excess over \$1,000 plus—										
		202.50	191.30	180.00	168.80	157.50	146.30	135.00	123.80	112.50	101.30	90.00

“If the payroll period with respect to an employee is a daily payroll period or a miscellaneous payroll period

And the wages divided by the number of days in such period are—		And the number of withholding exemptions claimed is—										
		0	1	2	3	4	5	6	7	8	9	10 or more
At least	But less than	The amount of tax to be withheld shall be the following amount multiplied by the number of days in such period—										
\$0.....	\$2.00.....	20% of wages	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
\$2.00.....	\$2.25.....	\$0.45	.05	0	0	0	0	0	0	0	0	0
\$2.25.....	\$2.50.....	.50	.10	0	0	0	0	0	0	0	0	0
\$2.50.....	\$2.75.....	.55	.15	0	0	0	0	0	0	0	0	0
\$2.75.....	\$3.00.....	.60	.20	0	0	0	0	0	0	0	0	0
\$3.00.....	\$3.25.....	.65	.25	0	0	0	0	0	0	0	0	0
\$3.25.....	\$3.50.....	.70	.30	0	0	0	0	0	0	0	0	0
\$3.50.....	\$3.75.....	.75	.35	0	0	0	0	0	0	0	0	0
\$3.75.....	\$4.00.....	.80	.40	.05	0	0	0	0	0	0	0	0
\$4.00.....	\$4.25.....	.85	.45	.10	0	0	0	0	0	0	0	0
\$4.25.....	\$4.50.....	.90	.50	.15	0	0	0	0	0	0	0	0
\$4.50.....	\$4.75.....	.95	.55	.20	0	0	0	0	0	0	0	0
\$4.75.....	\$5.00.....	1.00	.60	.25	0	0	0	0	0	0	0	0
\$5.00.....	\$5.25.....	1.05	.65	.30	0	0	0	0	0	0	0	0
\$5.25.....	\$5.50.....	1.10	.70	.35	0	0	0	0	0	0	0	0
\$5.50.....	\$5.75.....	1.15	.75	.40	.05	0	0	0	0	0	0	0
\$5.75.....	\$6.00.....	1.20	.80	.45	.10	0	0	0	0	0	0	0
\$6.00.....	\$6.25.....	1.25	.85	.50	.15	0	0	0	0	0	0	0
\$6.25.....	\$6.50.....	1.30	.90	.55	.20	0	0	0	0	0	0	0
\$6.50.....	\$6.75.....	1.35	.95	.60	.25	0	0	0	0	0	0	0
\$6.75.....	\$7.00.....	1.40	1.00	.65	.30	0	0	0	0	0	0	0
\$7.00.....	\$7.25.....	1.45	1.05	.70	.35	0	0	0	0	0	0	0
\$7.25.....	\$7.50.....	1.50	1.10	.75	.40	0	0	0	0	0	0	0
\$7.50.....	\$7.75.....	1.55	1.15	.80	.45	.05	0	0	0	0	0	0
\$7.75.....	\$8.00.....	1.60	1.20	.85	.50	.10	0	0	0	0	0	0
\$8.00.....	\$8.25.....	1.65	1.30	.90	.55	.15	0	0	0	0	0	0
\$8.25.....	\$8.50.....	1.70	1.35	.95	.60	.20	0	0	0	0	0	0
\$8.50.....	\$8.75.....	1.75	1.40	1.00	.65	.25	0	0	0	0	0	0
\$8.75.....	\$9.00.....	1.80	1.45	1.05	.70	.30	0	0	0	0	0	0
\$9.00.....	\$9.25.....	1.85	1.50	1.10	.75	.35	0	0	0	0	0	0
\$9.25.....	\$9.50.....	1.90	1.55	1.15	.80	.40	.05	0	0	0	0	0
\$9.50.....	\$9.75.....	1.95	1.60	1.20	.85	.45	.10	0	0	0	0	0
\$9.75.....	\$10.00.....	2.00	1.65	1.25	.90	.50	.15	0	0	0	0	0
\$10.00.....	\$10.50.....	2.10	1.70	1.35	.95	.60	.25	0	0	0	0	0
\$10.50.....	\$11.00.....	2.20	1.80	1.45	1.05	.70	.35	0	0	0	0	0
\$11.00.....	\$11.50.....	2.30	1.90	1.55	1.15	.80	.45	.05	0	0	0	0
\$11.50.....	\$12.00.....	2.40	2.00	1.65	1.25	.90	.55	.15	0	0	0	0
\$12.00.....	\$12.50.....	2.50	2.10	1.75	1.35	1.00	.65	.25	0	0	0	0
\$12.50.....	\$13.00.....	2.60	2.20	1.85	1.45	1.10	.75	.35	0	0	0	0
\$13.00.....	\$13.50.....	2.70	2.30	1.95	1.55	1.20	.85	.45	.10	0	0	0
\$13.50.....	\$14.00.....	2.80	2.40	2.05	1.65	1.30	.95	.55	.20	0	0	0
\$14.00.....	\$14.50.....	2.90	2.50	2.15	1.80	1.40	1.05	.65	.30	0	0	0
\$14.50.....	\$15.00.....	3.00	2.60	2.25	1.90	1.50	1.15	.75	.40	.05	0	0
\$15.00.....	\$15.50.....	3.10	2.70	2.35	2.00	1.60	1.25	.85	.50	.15	0	0
\$15.50.....	\$16.00.....	3.20	2.80	2.45	2.10	1.70	1.35	.95	.60	.25	0	0
\$16.00.....	\$16.50.....	3.30	2.90	2.55	2.20	1.80	1.45	1.05	.70	.35	0	0
\$16.50.....	\$17.00.....	3.40	3.00	2.65	2.30	1.90	1.55	1.15	.80	.45	.05	0
\$17.00.....	\$17.50.....	3.50	3.10	2.75	2.40	2.00	1.65	1.25	.90	.55	.15	0
\$17.50.....	\$18.00.....	3.60	3.20	2.85	2.50	2.10	1.75	1.40	1.00	.65	.25	0
\$18.00.....	\$18.50.....	3.70	3.35	2.95	2.60	2.20	1.85	1.50	1.10	.75	.35	0
\$18.50.....	\$19.00.....	3.80	3.45	3.05	2.70	2.30	1.95	1.60	1.20	.85	.45	.10
\$19.00.....	\$19.50.....	3.90	3.55	3.15	2.80	2.40	2.05	1.70	1.30	.95	.55	.20
\$19.50.....	\$20.00.....	4.00	3.65	3.25	2.90	2.50	2.15	1.80	1.40	1.05	.65	.30
\$20.00.....	\$21.00.....	4.15	3.80	3.40	3.05	2.65	2.30	1.95	1.55	1.20	.80	.45
\$21.00.....	\$22.00.....	4.35	4.00	3.60	3.25	2.85	2.50	2.15	1.75	1.40	1.00	.65
\$22.00.....	\$23.00.....	4.55	4.20	3.80	3.45	3.10	2.70	2.35	1.95	1.60	1.25	.85
\$23.00.....	\$24.00.....	4.75	4.40	4.00	3.65	3.30	2.90	2.55	2.15	1.80	1.45	1.05
\$24.00.....	\$25.00.....	4.95	4.60	4.20	3.85	3.50	3.10	2.75	2.35	2.00	1.65	1.25
\$25.00.....	\$26.00.....	5.15	4.80	4.40	4.05	3.70	3.30	2.95	2.55	2.20	1.85	1.45
\$26.00.....	\$27.00.....	5.35	5.00	4.65	4.25	3.90	3.50	3.15	2.80	2.40	2.05	1.65
\$27.00.....	\$28.00.....	5.55	5.20	4.85	4.45	4.10	3.70	3.35	3.00	2.60	2.25	1.85
\$28.00.....	\$29.00.....	5.75	5.40	5.05	4.65	4.30	3.90	3.55	3.20	2.80	2.45	2.05
\$29.00.....	\$30.00.....	5.95	5.60	5.25	4.85	4.50	4.10	3.75	3.40	3.00	2.65	2.30
\$30 and over.....		20 percent of the excess over \$30 plus—										
		6.10	5.70	5.35	4.95	4.60	4.25	3.85	3.50	3.10	2.75	2.40"

1 **SEC. 223. ADDITIONAL WITHHOLDING OF TAX ON WAGES**
2 **UPON AGREEMENT BY EMPLOYER AND EM-**
3 **PLOYEE.**

4 Section 1622 (relating to income tax collected at source
5 on wages) is hereby amended by adding at the end thereof
6 the following new subsection:

7 “(k) **ADDITIONAL WITHHOLDING.**—The Secretary is
8 authorized by regulations to provide, under such conditions
9 and to such extent as he deems proper, for withholding in
10 addition to that otherwise required under this section in cases
11 in which the employer and the employee agree (in such
12 form as the Secretary may by regulations prescribe) to such
13 additional withholding. Such additional withholding shall
14 for all purposes be considered tax required to be deducted
15 and withheld under this subchapter.”

16 **SEC. 224. EFFECTIVE DATE.**

17 The amendments made by this part shall be applicable
18 only with respect to wages paid on or after September 1,
19 1951.

1 **TITLE III—MISCELLANEOUS INCOME TAX**
2 **AMENDMENTS**

3 **SEC. 301. TAX TREATMENT IN CASE OF HEAD OF HOUSE-**
4 **HOLD.**

5 (a) **SURTAX IN CASE OF HEAD OF HOUSEHOLD.**—Sec-
6 tion 12 (c) is hereby amended to read as follows:

7 “(c) **HEAD OF HOUSEHOLD.**—

8 “(1) **RATES OF SURTAX.**—In the case of taxable
9 years beginning after August 31, 1951, there shall be
10 levied, collected, and paid for each taxable year upon
11 the surtax net income of every individual who is the
12 head of a household the surtax shown in the following
13 table:

If the surtax net income is:	The surtax shall be:
Not over \$2,000-----	17% of the surtax net income.
Over \$2,000 but not over \$4,000---	\$340, plus 18% of excess over \$2,000.
Over \$4,000 but not over \$6,000---	\$700, plus 21% of excess over \$4,000.
Over \$6,000 but not over \$8,000---	\$1,120, plus 23% of excess over \$6,000.
Over \$8,000 but not over \$10,000--	\$1,580, plus 27% of excess over \$8,000.
Over \$10,000 but not over \$12,000--	\$2,120, plus 29% of excess over \$10,000.
Over \$12,000 but not over \$14,000--	\$2,700, plus 33% of excess over \$12,000.
Over \$14,000 but not over \$16,000--	\$3,360, plus 36% of excess over \$14,000.
Over \$16,000 but not over \$18,000--	\$4,080, plus 39% of excess over \$16,000.
Over \$18,000 but not over \$20,000--	\$4,860, plus 40% of excess over \$18,000.
Over \$20,000 but not over \$22,000--	\$5,660, plus 44% of excess over \$20,000.
Over \$22,000 but not over \$24,000--	\$6,540, plus 46% of excess over \$22,000.
Over \$24,000 but not over \$26,000--	\$7,460, plus 48% of excess over \$24,000.

If the surtax net income is:	The surtax shall be:
Over \$26,000 but not over \$28,000_	\$8,420, plus 49% of excess over \$26,000.
Over \$28,000 but not over \$32,000_	\$9,400, plus 52% of excess over \$28,000.
Over \$32,000 but not over \$36,000_	\$11,480, plus 54% of excess over \$32,000.
Over \$36,000 but not over \$40,000_	\$13,640, plus 57% of excess over \$36,000.
Over \$40,000 but not over \$44,000_	\$15,920, plus 60% of excess over \$40,000.
Over \$44,000 but not over \$50,000_	\$18,320, plus 62% of excess over \$44,000.
Over \$50,000 but not over \$60,000_	\$22,040, plus 65% of excess over \$50,000.
Over \$60,000 but not over \$70,000_	\$28,540, plus 68% of excess over \$60,000.
Over \$70,000 but not over \$80,000_	\$35,340, plus 71% of excess over \$70,000.
Over \$80,000 but not over \$90,000_	\$42,440, plus 74% of excess over \$80,000.
Over \$90,000 but not over \$100,000_	\$49,840, plus 76% of excess over \$90,000.
Over \$100,000 but not over \$120,000_	\$57,440, plus 79% of excess over \$100,000.
Over \$120,000 but not over \$150,000_	\$73,240, plus 81% of excess over \$120,000.
Over \$150,000 but not over \$160,000_	\$97,540, plus 83% of excess over \$150,000.
Over \$160,000 but not over \$180,000_	\$105,840, plus 84% of excess over \$160,000.
Over \$180,000 but not over \$200,000_	\$122,640, plus 85% of excess over \$180,000.
Over \$200,000 but not over \$300,000_	\$139,640, plus 87% of excess over \$200,000.
Over \$300,000 -----	\$226,640, plus 88% of excess over \$300,000.

1 In the case of the head of a household whose surtax
2 net income for the taxable year is over \$90,000, this
3 paragraph shall not apply if the defense tax provided in
4 section 16 is applicable to such taxable year. For per-
5 centage increase in the amount of tax imposed by this
6 subsection, see section 16.

7 “(2) SURTAX NET INCOME OVER \$90,000.—In
8 the case of a taxable year beginning after August 31,

1 1951, to which the defense tax provided in section 16
2 is applicable, if the surtax net income for the taxable
3 year of an individual who is the head of a household
4 is over \$90,000, there shall be levied, collected, and
5 paid for such taxable year upon the surtax net income
6 of such individual the surtax shown in the following
7 table:

If the surtax net income is:				The surtax shall be:	
Over \$90,000	but not	over	\$100,000.	\$49,840, plus 75%	of excess over \$90,000.
Over \$100,000	but not	over	\$120,000.	\$57,340, plus 76%	of excess over \$100,000.
Over \$120,000	but not	over	\$140,000.	\$72,540, plus 78%	of excess over \$120,000.
Over \$140,000	but not	over	\$160,000.	\$88,140, plus 80%	of excess over \$140,000.
Over \$160,000	-----			\$104,140, plus 81%	of excess over \$160,000.

8 “(3) DEFINITION OF HEAD OF HOUSEHOLD.—For
9 the purposes of this chapter, an individual shall be
10 considered a head of a household if, and only if, such
11 individual is not married at the close of his taxable year
12 and maintains as his home a household which constitutes
13 for such taxable year the principal place of abode, as a
14 member of such household, of:

15 “(A) A son or daughter (including a stepson
16 or stepdaughter) of the taxpayer, or a descendant
17 of such son or daughter, but if such son, daughter,
18 or descendant is married at the close of the tax-
19 payer’s taxable year, only if the taxpayer is en-

1 titled to an exemption for the taxable year for such
2 person under section 25 (b) ; or

3 “(B) Any other person who is a dependent
4 of the taxpayer, if the taxpayer is entitled to an
5 exemption for the taxable year for such person
6 under section 25 (b) .

7 An individual shall be considered as maintaining a house-
8 hold only if over half of the cost of maintaining the
9 household during the taxable year is furnished by such
10 individual.

11 “(4) DETERMINATION OF STATUS.—For the pur-
12 poses of this subsection—

13 “(A) a legally adopted child of a person shall
14 be considered a child of such person by blood;

15 “(B) an individual who is legally separated
16 from his spouse under a decree of divorce or of
17 separate maintenance shall not be considered as
18 married;

19 “(C) a taxpayer shall be considered as not
20 married at the close of his taxable year if at any
21 time during the taxable year his spouse is a non-
22 resident alien; and

23 “(D) a taxpayer shall be considered as married
24 at the close of his taxable year if his spouse (other

1 than a spouse described in subparagraph (C)) died
2 during the taxable year.

3 “(5) NONRESIDENT ALIEN.—For the purposes of
4 this chapter a taxpayer shall in no case be considered
5 a head of a household if at any time during the taxable
6 year he is a nonresident alien.”

7 (b) EFFECTIVE DATE.—The amendment made by sub-
8 section (a) shall be applicable only with respect to taxable
9 years beginning after August 31, 1951.

10 SEC. 302. EXPENDITURES IN THE DEVELOPMENT OF
11 MINES.

12 (a) DEDUCTION OF EXPENDITURES.—Section 23 (a)
13 (1) (relating to deductions from gross income) is hereby
14 amended by adding at the end thereof the following new
15 subparagraph:

16 “(D) DEVELOPMENT OF MINES.—Expendi-
17 tures paid or incurred after December 31, 1950, in
18 the development of a mine or other natural deposit
19 (other than an oil or gas well), to the extent paid
20 or incurred after the existence of ores or minerals
21 in commercially marketable quantities has been
22 disclosed, shall be deductible, on a ratable basis, as
23 the units of produced ores or minerals benefited by
24 such expenditures are sold. Such expenditures, and
25 the adjustments to basis provided in section 113

(b) (1) (J), shall not be taken into account in determining the adjusted basis of the property for the purpose of computing depletion under section 114. This subparagraph shall not apply to expenditures for the acquisition or improvement of property of a character which is subject to the allowance for depreciation provided in section 23 (1). For purposes of this subparagraph, allowances for depreciation shall be considered as expenditures.”

(b) ADJUSTED BASIS FOR DETERMINING GAIN OR LOSS UPON SALE OR EXCHANGE.—Section 113 (b) (1) (relating to adjusted basis of property) is hereby amended by adding at the end thereof the following subparagraph:

“(J) for amounts allowed as deductions under section 23 (a) (1) (D) (relating to certain expenditures in the development of mines) and resulting in a reduction of the taxpayer’s taxes under this chapter, but not less than the amounts allowable under such section for the taxable year and prior years.”

(c) TECHNICAL AMENDMENT.—Section 24 (a) (2) (relating to items not deductible) is hereby amended by adding after the word “estate” the following: “, except expenditures for the development of mines or deposits deductible under section 23 (a) (1) (D)”.

1 (d) EFFECTIVE DATE.—The amendments made by this
2 section shall be applicable to taxable years ending after
3 December 31, 1950.

4 SEC. 303. GAIN FROM SALE OR EXCHANGE OF TAXPAYER'S
5 RESIDENCE.

6 (a) NONRECOGNITION OF GAIN IN CERTAIN CASES.—
7 Section 112 (relating to recognition of gain or loss) is hereby
8 amended by adding at the end thereof the following new
9 subsection:

10 “(n) GAIN FROM SALE OR EXCHANGE OF RESI-
11 DENCE.—

12 “(1) NONRECOGNITION OF GAIN.—If property
13 (hereinafter in this subsection called ‘old residence’)
14 used by the taxpayer as his principal residence is sold
15 by him and, within a period beginning one year prior
16 to the date of such sale and ending one year after such
17 date, property (hereinafter in this subsection called ‘new
18 residence’) is purchased and used by the taxpayer as
19 his principal residence, gain (if any) from such sale
20 shall be recognized only to the extent that the taxpayer's
21 selling price of the old residence exceeds the taxpayer's
22 cost of purchasing the new residence.

23 “(2) RULES FOR APPLICATION OF SUBSECTION.—
24 For the purposes of this subsection:

25 “(A) An exchange by the taxpayer of his

1 residence for other property shall be considered as
2 a sale of such residence, and the acquisition of a
3 residence upon the exchange of property shall be
4 considered as a purchase of such residence.

5 “(B) If the taxpayer’s residence (as a result
6 of its destruction in whole or in part, theft, or
7 seizure) is compulsorily or involuntarily converted
8 into property or into money, such destruction, theft,
9 or seizure shall be considered as a sale of the resi-
10 dence; and if the residence is so converted into
11 property which is used by the taxpayer as his resi-
12 dence, such conversion shall be considered as a
13 purchase of such property by the taxpayer.

14 “(C) In the case of an exchange or conversion
15 described in subparagraph (A) or (B), in deter-
16 mining the extent to which the selling price of the
17 old residence exceeds the taxpayer’s cost of purchas-
18 ing the new residence, the amount realized by the
19 taxpayer upon such exchange or conversion shall be
20 considered the selling price of the old residence.

21 “(D) A residence any part of which was con-
22 structed or reconstructed by the taxpayer shall be
23 considered as purchased by the taxpayer. In de-
24 termining the taxpayer’s cost of purchasing a resi-
25 dence, there shall be included only so much of his

1 cost as is attributable to the acquisition, construc-
2 tion, reconstruction, and improvements made which
3 are properly chargeable to capital account, during
4 the period specified in paragraph (1).

5 “(E) If a residence is purchased by the tax-
6 payer prior to the date of his sale of the old resi-
7 dence, the purchased residence shall not be
8 treated as his new residence if sold or otherwise
9 disposed of by him prior to the date of the sale of
10 the old residence.

11 “(F) If the taxpayer, during the period de-
12 scribed in paragraph (1), purchases more than one
13 residence which is used by him as his principal
14 residence at some time within one year after the date
15 of the sale of the old residence, only the last of such
16 residences so used by him after the date of such
17 sale shall constitute the new residence. If within
18 the one year referred to in the preceding sentence
19 property used by the taxpayer as his principal resi-
20 dence is destroyed, stolen, seized, requisitioned, or
21 condemned, or is sold or exchanged under threat
22 or imminence thereof, then for the purposes of
23 the preceding sentence such one year shall be con-

sidered as ending with the date of such destruction, theft, seizure, requisition, condemnation, sale, or exchange.

“(3) LIMITATION.—The provisions of paragraph (1) shall not be applicable with respect to the sale of the taxpayer’s residence if within one year prior to the date of such sale the taxpayer sold at a gain other property used by him as his principal residence, and any part of such gain was not recognized by reason of the provisions of paragraph (1). For the purposes of this paragraph, the destruction, theft, seizure, requisition, or condemnation of property or the sale or exchange of property under threat or imminence thereof, shall not be considered as a sale of such property.

“(4) BASIS OF NEW RESIDENCE.—Where the purchase of a new residence results, under paragraph (1), in the nonrecognition of gain upon the sale of an old residence, in determining the adjusted basis of the new residence as of any time following the sale of the old residence, the adjustments to basis shall include a reduction by an amount equal to the amount of the gain not so recognized upon the sale of the old residence. For this purpose, the amount of the gain not so recognized

1 upon the sale of the old residence includes only so much
2 of such gain as is not recognized by reason of the cost,
3 up to such time, of purchasing the new residence.

4 “(5) TENANT-STOCKHOLDER IN A COOPERATIVE
5 APARTMENT CORPORATION.—For the purposes of this
6 subsection, section 113 (b) (1) (K), and section 117
7 (h) (7), references to property used by the taxpayer
8 as his principal residence, and references to the residence
9 of a taxpayer, shall include stock held by a tenant-
10 stockholder (as defined in section 23 (z) (2)) in a
11 cooperative apartment (as defined in such section) if—

12 “(A) in the case of stock sold, the apartment
13 which the taxpayer was entitled to occupy as such
14 stockholder was used by him as his principal resi-
15 dence, and

16 “(B) in the case of stock purchased, the tax-
17 payer used as his principal residence the apartment
18 which he was entitled to occupy as such stockholder.

19 “(6) HUSBAND AND WIFE.—If the taxpayer and
20 his spouse, in accordance with regulations which shall
21 be prescribed by the Secretary pursuant to this para-
22 graph, consent to the application of subparagraph (B)
23 of this paragraph, then—

24 “(A) for the purposes of this subsection, the
25 words ‘taxpayer’s selling price of the old residence’

1 shall mean the selling price (of the taxpayer, or
2 of the taxpayer and his spouse) of the old residence,
3 and the words 'taxpayer's cost of purchasing the
4 new residence' shall mean the cost (to the tax-
5 payer, his spouse, or both) of purchasing the new
6 residence (whether held by the taxpayer, his spouse,
7 or the taxpayer and his spouse) ; and

8 “(B) so much of the gain upon the sale of the
9 old residence as is not recognized solely by reason
10 of this paragraph, and so much of the adjustment
11 under paragraph (4) to the basis of the new resi-
12 dence as results solely from this paragraph, shall
13 be allocated between the taxpayer and his spouse as
14 provided in such regulations.

15 This paragraph shall apply only if the old residence and
16 the new residence are each used by the taxpayer and his
17 spouse as their principal residence. In case the tax-
18 payer and his spouse do not consent to the application
19 of subparagraph (B) of this paragraph, then the recog-
20 nition of gain upon the sale of the old residence shall be
21 determined under this subsection without regard to the
22 rules provided in this paragraph.

23 “(7) STATUTE OF LIMITATIONS.—If the taxpayer

1 during a taxable year sells at a gain property used by
2 him as his principal residence, then—

3 “(A) the statutory period for the assessment
4 of any deficiency attributable to any part of such
5 gain shall not expire prior to the expiration of three
6 years from the date the Secretary is notified by the
7 taxpayer (in such manner as the Secretary may by
8 regulations prescribe) of—

9 “(i) the taxpayer’s cost of purchasing the
10 new residence which the taxpayer claims re-
11 sults in nonrecognition of any part of such gain,

12 “(ii) the taxpayer’s intention not to pur-
13 chase a new residence within the period speci-
14 fied in paragraph (1), or

15 “(iii) a failure to make such purchase
16 within such period; and

17 “(B) such deficiency may be assessed prior to
18 the expiration of such three-year period notwith-
19 standing the provisions of any other law or rule of
20 law which would otherwise prevent such assess-
21 ment.”

22 (b) TECHNICAL AMENDMENTS.—

23 (1) Section 112 (f) (relating to involuntary con-
24 versions) is hereby amended by adding at the end
25 thereof the following: “This subsection shall not apply,

1 in the case of property used by the taxpayer as his
2 principal residence, if the destruction, theft, seizure,
3 requisition, or condemnation of the residence, or the
4 sale or exchange of such residence under threat or
5 imminence thereof, occurred after December 31, 1950.”

6 (2) Section 113 (a) (9) (relating to basis of
7 property acquired as a result of involuntary conversions)
8 is hereby amended by adding at the end thereof the
9 following: “This paragraph shall not apply in respect
10 of property acquired as a result of a compulsory or
11 involuntary conversion of property used by the taxpayer
12 as his principal residence if the destruction, theft, seizure,
13 requisition, or condemnation of such residence, or the
14 sale or exchange of such residence under threat or
15 imminence thereof, occurred after December 31, 1950.”

16 (3) Section 113 (b) (1) (relating to adjusted
17 basis of property) is hereby amended by adding at the
18 end thereof the following new subparagraph:

19 “(K) in the case of a residence the acquisition
20 of which resulted, under the provisions of section
21 112 (n), in the nonrecognition of any part of the
22 gain realized upon the sale, exchange, or involun-
23 tary conversion of another residence, to the extent
24 provided in section 112 (n) (4).”

25 (4) Section 117 (h) (relating to determination of

1 holding period) is hereby amended by adding at the end
2 thereof the following new paragraph:

3 “(7) In determining the period for which the tax-
4 payer has held a residence, the acquisition of which
5 resulted under section 112 (n) in the nonrecognition of
6 any part of the gain realized on the sale, exchange, or
7 involuntary conversion of another residence, there shall
8 be included the period for which such other residence
9 had been held as of the date of such sale, exchange, or
10 involuntary conversion.”

11 (5) Section 276 (relating to period of limitation
12 upon assessment and collection) is hereby amended by
13 adding at the end thereof the following:

14 “(e) GAIN UPON SALE OR EXCHANGE OF RESI-
15 DENCE.—In the case of a deficiency described in section
16 112 (n) (7), such deficiency may be assessed at any time
17 prior to the expiration of the time therein provided.”

18 (c) EFFECTIVE DATE.—The amendments made by this
19 section shall be applicable to taxable years ending after
20 December 31, 1950, but the provisions of section 112 (n)
21 (1) and (6) of the Internal Revenue Code shall apply only
22 with respect to residences sold (within the meaning of such
23 section) after such date.

1 SEC. 304. PERCENTAGE DEPLETION.

2 (a) ALLOWANCE OF PERCENTAGE DEPLETION.—So
3 much of paragraph (4) of section 114 (b) as precedes the
4 last sentence of subparagraph (A) is hereby amended to
5 read as follows:

6 “(4) PERCENTAGE DEPLETION FOR COAL AND
7 METAL MINES AND FOR CERTAIN OTHER MINES AND
8 NATURAL MINERAL DEPOSITS.—

9 “(A) IN GENERAL.—The allowance for deple-
10 tion under section 23 (m) in the case of the follow-
11 ing mines and other natural deposits shall be—

12 “(i) in the case of asbestos, sand, gravel,
13 stone (including pumice, scoria, and slate),
14 brick and tile clay, shale, oyster shell, clam
15 shell, granite, and marble, 5 per centum,

16 “(ii) in the case of coal, 10 per centum,

17 “(iii) in the case of metal mines, bauxite,
18 fluorspar, flake graphite, vermiculite, beryl,
19 feldspar, mica, talc (including pyrophyllite),
20 lepidolite, spodumene, barite, ball and sagger
21 clay, china clay, phosphate rock, rock asphalt,
22 trona, bentonite, gilsonite, thenardite (includ-
23 ing thenardite from brines or mixtures of

1 brine), potash, borax, fuller's earth, tripoli, re-
 2 fractory and fire clay, quartzite, perlite, diato-
 3 maceous earth, metallurgical grade limestone,
 4 and chemical grade limestone, 15 per centum,
 5 and

6 “(iv) in the case of sulfur, 23 per centum,
 7 of the gross income from the property during the
 8 taxable year, excluding from such gross income an
 9 amount equal to any rents or royalties paid or
 10 incurred by the taxpayer in respect of the property.”

11 (b) TECHNICAL AMENDMENT.—So much of para-
 12 graph (2) of section 114 (b) as precedes “discovered by
 13 the taxpayer after February 28, 1913” is hereby amended
 14 to read as follows:

15 “(2) DISCOVERY VALUE IN THE CASE OF
 16 MINES.—In the case of mines (except mines in respect
 17 of which percentage depletion is allowable under para-
 18 graph (4) of this subsection)”.
 19 (c) EFFECTIVE DATE.—The amendments made by this

20 section shall be applicable only with respect to taxable
 21 years beginning after December 31, 1950.

22 SEC. 305. CAPITAL GAINS AND LOSSES.

23 (a) TREATMENT OF LONG-TERM CAPITAL GAINS AND
 24 LOSSES.—

25 (1) AMENDMENT OF SECTION 23.—Section 23 (re-

1 lating to deductions from gross income) is hereby
2 amended by adding at the end thereof the following
3 new subsection:

4 “(cc) LONG-TERM CAPITAL GAINS.—In the case of
5 a taxpayer other than a corporation, the deduction for long-
6 term capital gains provided in section 117 (b).”

7 (2) AMENDMENT OF SECTION 117 (b).—Section
8 117 (b) (relating to treatment of long-term capital gains
9 and losses) is hereby amended to read as follows:

10 “(b) DEDUCTION FROM GROSS INCOME.—In the case
11 of a taxpayer other than a corporation, if for any taxable
12 year the net long-term capital gain exceeds the net short-
13 term capital loss, 50 per centum of the amount of such
14 excess shall be a deduction from gross income. In the case
15 of an estate or trust, the deduction shall be computed by
16 excluding the portion (if any), of the gains for the taxable
17 year from sales or exchanges of capital assets, which, under
18 section 162 (b) or (c), is includible by the income bene-
19 ficiaries as gain derived from the sale or exchange of capital
20 assets.”

21 (b) ALTERNATIVE TAX.—Section 117 (c) (2) (re-
22 lating to alternative tax) is hereby amended to read as
23 follows:

24 “(2) OTHER TAXPAYERS.—If for any taxable year
25 the net long-term capital gain of any taxpayer (other

1 than a corporation) exceeds the net short-term capital
2 loss, there shall be levied, collected, and paid, in lieu
3 of the tax imposed by sections 11 and 12 (or, in the
4 case of certain tax-exempt trusts, in lieu of the tax
5 imposed by section 421), a tax determined as follows,
6 if and only if such tax is less than the tax imposed by
7 such section:

8 “(A) A partial tax shall first be computed
9 upon the net income reduced by an amount equal
10 to 50 per centum of such excess, at the rates and
11 in the manner as if this subsection had not been
12 enacted.

13 “(B) There shall then be ascertained an amount
14 equal to 25 per centum of the excess of the net
15 long-term capital gain over the net short-term
16 capital loss. In the case of taxable years to which
17 the defense tax provided in section 16 (c) is appli-
18 cable, such amount shall be increased by the per-
19 centage specified in such section.

20 “(C) The total tax shall be the partial tax
21 computed under subparagraph (A) plus the amount
22 computed under subparagraph (B).”

23 (c) TECHNICAL AMENDMENTS.—

24 (1) AMENDMENT OF SECTION 22 (n).—Section 22
25 (n) (relating to the definition of adjusted gross income)

1 is hereby amended by striking out the word “and” at
2 the end of paragraph (5), by striking out the period
3 at the end of paragraph (6) and inserting in lieu thereof
4 “; and”, and by inserting after paragraph (6) the fol-
5 lowing new paragraph:

6 “(7) LONG-TERM CAPITAL GAINS.—The deduction
7 allowed by section 23 (cc).”

8 (2) AMENDMENT OF SECTION 117 (a).—Paragraphs
9 (2) and (4) of section 117 (a) (relating to definitions
10 of short-term capital gain and long-term capital gain)
11 are each hereby amended by striking out “net income”
12 and inserting in lieu thereof “gross income”.

13 (3) AMENDMENT OF SECTION 117 (j).—Section
14 117 (j) (2) (A) (relating to gains and losses from
15 involuntary conversion and from the sale or exchange
16 of certain property used in the trade or business) is
17 hereby amended to read as follows:

18 “(A) In determining under this paragraph
19 whether gains exceed losses, the gains described
20 therein shall be included only if and to the extent
21 taken into account in computing gross income and
22 the losses described therein shall be included only
23 if and to the extent taken into account in computing
24 net income, except that subsection (d) shall not
25 apply.”

1 (4) AMENDMENT OF SECTION 122 (d).—Section
2 122 (d) (4) (relating to computation of net operating
3 loss deduction) is hereby amended to read as follows:

4 “(4) The amount deductible on account of losses
5 from sales or exchanges of capital assets shall not exceed
6 the amount includible on account of gains from such
7 sales or exchanges. The deduction provided in section
8 23 (cc) shall not be allowed.”

9 (5) AMENDMENT OF SECTION 162 (a).—Section
10 162 (a) (relating to computation of net income of
11 estates and trusts) is hereby amended by striking out
12 the semicolon and inserting in lieu thereof a period and
13 the following: “Where any amount of the income so
14 paid or set aside is attributable to gain from the sale
15 or exchange of capital assets held for more than six
16 months, proper adjustment of the deduction otherwise
17 allowable under this subsection shall be made for any
18 deduction allowable to the trust under section 23 (cc).”

19 (d) EFFECTIVE DATE.—The amendments made by this
20 section shall be applicable only with respect to taxable years
21 beginning on or after the date of the enactment of this Act.
22 In determining under section 117 (e) of the Internal Rev-
23 enue Code the amount of the carryover to a taxable year
24 beginning on or after such date, of the capital loss for a
25 taxable year beginning before such date, such amendments

1 shall not affect the computation of the amount of the net
2 capital loss or of the net capital gain for any taxable year
3 beginning before such date.

4 **SEC. 306. SALES OF LIVESTOCK.**

5 Effective with respect to taxable years beginning after
6 December 31, 1950, section 117 (j) (1) is hereby amended
7 by adding at the end thereof the following new sentence:
8 “Such term also includes livestock held by the taxpayer for
9 draft, breeding, or dairy purposes for 12 months or more.”

10 **SEC. 307. TAX TREATMENT OF COAL ROYALTIES.**

11 (a) **DEFINITION OF PROPERTY USED IN THE TRADE OR**
12 **BUSINESS.**—Section 117 (j) (1) (relating to the definition
13 of property used in the trade or business) is hereby amended
14 by adding after the word “timber” in the second sentence
15 thereof the following: “or coal”.

16 (b) **GAIN OR LOSS UPON CERTAIN DISPOSALS OF**
17 **TIMBER OR COAL.**—Section 117 (k) (2) (relating to the
18 disposal of timber) is hereby amended to read as follows:

19 “(2) In the case of the disposal of timber or coal
20 (held for more than 6 months prior to such disposal)
21 by the owner thereof under any form or type of contract
22 by virtue of which the owner retains an economic interest
23 in such timber or coal, the difference between the amount
24 received for such timber or coal and the adjusted deple-
25 tion basis thereof shall be considered as though it were

1 a gain or loss, as the case may be, upon the sale of such
 2 timber or coal. Such owner shall not be entitled to the
 3 allowance for percentage depletion provided for in sec-
 4 tion 114 (b) (4) with respect to such coal. In the
 5 case of coal, this paragraph shall not apply if such owner
 6 is personally obligated to pay a share of the cost of
 7 mining operations.”

8 (c) CLERICAL AMENDMENT.—The heading to section
 9 117 (k) (relating to the gain or loss upon the cutting of
 10 timber) is hereby amended to read as follows: “(k) GAIN
 11 OR LOSS IN THE CASE OF TIMBER OR COAL.—”.

12 (d) EFFECTIVE DATE.—The amendments made by this
 13 section shall be applicable only with respect to taxable years
 14 ending after December 31, 1950 (whether the disposal of
 15 the coal occurred on, before, or after such date), but shall
 16 apply only with respect to amounts received or accrued after
 17 such date.

18 SEC. 308. COLLAPSIBLE CORPORATIONS.

19 (a) Definitions with Respect to Collapsible Corpora-
 20 tions.—Section 117 (m) (2) (relating to definitions with
 21 respect to collapsible corporations) is hereby amended to
 22 read as follows:

23 “(2) DEFINITIONS.—

24 “(A) For the purposes of this subsection, the
 25 term ‘collapsible corporation’ means a corporation

1 formed or availed of principally for the manufacture,
2 construction, or production of property, for the pur-
3 chase of property which (in the hands of the cor-
4 poration) is property described in subsection (a)
5 (1) (A), or for the holding of stock in a corpora-
6 tion so formed or availed of, with a view to—

7 “(i) the sale or exchange of stock by its
8 shareholders (whether in liquidation or other-
9 wise), or a distribution to its shareholders, prior
10 to the realization by the corporation manufac-
11 turing, constructing, producing, or purchasing
12 the property of a substantial part of the net in-
13 come to be derived from such property, and

14 “(ii) the realization by such shareholders
15 of gain attributable to such property.

16 “(B) For the purposes of subparagraph (A),
17 a corporation shall be deemed to have manufac-
18 tured, constructed, produced, or purchased property,
19 if—

20 “(i) it engaged in the manufacture, con-
21 struction, or production of such property to any
22 extent,

23 “(ii) it holds property having a basis de-
24 termined, in whole or in part, by reference to
25 the cost of such property in the hands of a per-

1 son who manufactured, constructed, produced,
2 or purchased the property, or

3 “(iii) it holds property having a basis
4 determined, in whole or in part, by reference to
5 the cost of property manufactured, constructed,
6 produced, or purchased by the corporation.”

7 (b) LIMITATIONS ON APPLICATION OF SECTION 117

8 (m).—Subparagraphs (A), (B), and (C) of section 117

9 (m) (3) (relating to the limitations on the application of
10 section 117 (m)) are hereby amended to read as follows:

11 “(A) this subsection shall not apply unless, at
12 any time after the commencement of the manufac-
13 ture, construction, or production of the property, or
14 at the time of the purchase of the property described
15 in subsection (a) (1) (A) or at any time there-
16 after, such shareholder (i) owned (or was con-
17 sidered as owning) more than 10 per centum
18 in value of the outstanding stock of the corporation,
19 or (ii) owned stock which was considered as owned
20 at such time by another shareholder who then owned
21 (or was considered as owning) more than 10 per
22 centum in value of the outstanding stock of the
23 corporation;

1 “(B) this subsection shall not apply to the
2 gain recognized during a taxable year unless more
3 than 70 per centum of such gain is attributable to
4 the property so manufactured, constructed, pro-
5 duced, or purchased; and

6 “(C) this subsection shall not apply to gain
7 realized after the expiration of three years following
8 the completion of such manufacture, construction,
9 production, or purchase.”

10 (c) **EFFECTIVE DATE.**—The amendment made by this
11 section shall be applicable to taxable years beginning after
12 December 31, 1950. The determination of the tax treat-
13 ment of gains realized in taxable years beginning prior to
14 January 1, 1951, shall be made as if this section had not
15 been enacted and without inferences drawn from the fact
16 that the amendment to section 117 (m) made by this sec-
17 tion is not expressly made applicable to gains realized in
18 taxable years beginning prior to such date and without
19 inferences drawn from the limitations contained in section
20 117 (m), as amended by this section.

21 **SEC. 309. DEALERS IN SECURITIES—CAPITAL GAINS AND**
22 **ORDINARY LOSSES.**

23 Effective with respect to sales or exchanges made after
24 the expiration of the thirtieth day after the date of the enact-

1 ment of this Act, section 117 is hereby amended by adding
2 at the end thereof the following new subsection:

3 “(n) DEALERS IN SECURITIES.—

4 “(1) CAPITAL GAINS.—Gain by a dealer in securi-
5 ties from the sale or exchange of any security shall in no
6 event be considered as gain from the sale or exchange
7 of a capital asset unless—

8 “(A) the security was, prior to the expiration
9 of the thirtieth day after the date of its acquisition or
10 after the date of the enactment of the Revenue Act
11 of 1951 (whichever is the later), clearly identified
12 in the dealer’s records as a security held for invest-
13 ment; and

14 “(B) the security was not, at any time after
15 the expiration of such thirtieth day, held by such
16 dealer primarily for sale to customers in the ordinary
17 course of his trade or business.

18 “(2) ORDINARY LOSSES.—Loss by a dealer in se-
19 curities from the sale or exchange of any security shall
20 in no event be considered as loss from the sale or ex-
21 change of property which is not a capital asset if at any
22 time after the thirtieth day following the date of the
23 enactment of the Revenue Act of 1951 the security was
24 clearly identified in the dealer’s records as a security
25 held for investment.

“(3) DEFINITION OF SECURITY.—For the purposes of this subsection the term ‘security’ means any share of stock in any corporation, certificate of stock or interest in any corporation, note, bond, debenture, or evidence of indebtedness, or any evidence of an interest in or right to subscribe to or purchase any of the foregoing.”

SEC. 310. TREATMENT OF GAIN ON SALES OF CERTAIN PROPERTY BETWEEN SPOUSES AND BETWEEN AN INDIVIDUAL AND A CONTROLLED CORPORATION.

(a) DISALLOWANCE OF CAPITAL GAIN TREATMENT.—

Section 117 (relating to capital gains and losses) is hereby amended by adding at the end thereof the following new subsection:

“(o) GAIN FROM SALE OF CERTAIN PROPERTY BETWEEN SPOUSES OR BETWEEN AN INDIVIDUAL AND A CONTROLLED CORPORATION.—

“(1) TREATMENT OF GAIN AS ORDINARY INCOME.—In the case of a sale or exchange, directly or indirectly, of property described in paragraph (2) —

“(A) between a husband and wife; or

“(B) between an individual and a corporation more than 50 per centum in value of the outstand-

1 ing stock of which is owned, directly or indirectly,
2 by or for such individual,
3 any gain recognized to the transferor from the sale or
4 exchange of such property shall be considered as gain
5 from the sale or exchange of property which is neither a
6 capital asset nor property described in subsection (j).

7 “(2) SUBSECTION APPLICABLE ONLY TO SALES OR
8 EXCHANGES OF DEPRECIABLE PROPERTY.—This subsec-
9 tion shall apply only in the case of a sale or exchange of
10 property by a transferor which in the hands of the trans-
11 feree is property of a character which is subject to the
12 allowance for depreciation provided in section 23 (1).

13 “(3) STOCK OWNERSHIP.—For the purposes of
14 determining, in applying paragraph (1) (B), the
15 ownership of stock—

16 “(A) stock owned, directly or indirectly, by or
17 for a corporation, partnership, estate, or trust, shall
18 be considered as being owned proportionately by or
19 for its shareholders, partners, or beneficiaries;

20 “(B) an individual shall be considered as own-
21 ing the stock owned, directly or indirectly, by or for
22 his spouse;

23 “(C) if an individual owns more than 10 per
24 centum in value of the outstanding stock of a cor-
25 poration (including stock considered as owned by

1 him under subparagraphs (A) and (B)), such
2 individual shall be considered as owning the stock
3 owned in such corporation, directly or indirectly,
4 by or for his brothers and sisters (whether by the
5 whole or the half blood), ancestors, and lineal
6 descendants;

7 “(D) stock constructively owned by a person
8 by reason of the application of subparagraph (A)
9 shall, for the purpose of applying subparagraph
10 (A), (B), or (C), be treated as actually owned
11 by such person, but stock constructively owned by
12 an individual by reason of the application of sub-
13 paragraph (B) or (C) shall not be treated as
14 owned by him for the purpose of applying either
15 such subparagraph in order to make another the
16 constructive owner of such stock.”

17 (b) EFFECTIVE DATE.—The amendment made by sub-
18 section (a) shall be applicable with respect to taxable years
19 ending after April 30, 1951, but shall apply only with
20 respect to sales or exchanges made after May 3, 1951.

21 **SEC. 311. LIFE INSURANCE COMPANIES.**

22 (a) RESERVE AND OTHER POLICY LIABILITY CREDIT
23 FOR 1951.—So much of section 202 (b) (2) (relating to
24 definition of reserve and other policy liability credit) as

1 precedes subparagraph (A) thereof is hereby amended to
2 read as follows:

3 “(2) SPECIAL RULE FOR 1949, 1950, AND 1951.—

4 In the case of the taxes imposed for a taxable year
5 beginning in 1949, 1950, or 1951, the figure to be used
6 for such year shall be computed as provided in paragraph
7 (1) except that—”.

8 (b) EFFECTIVE DATE.—The amendment made by
9 subsection (a) shall be applicable to taxable years beginning
10 in 1951.

11 **SEC. 312. TAX TREATMENT OF CERTAIN INVESTMENT COM-**
12 **PANIES.**

13 (a) INCLUSION OF CERTAIN REGISTERED MANAGE-
14 MENT COMPANIES IN THE DEFINITION OF REGULATED
15 INVESTMENT COMPANY.—Section 361 (relating to defini-
16 tion of regulated investment companies) is hereby amended
17 by adding at the end thereof the following new subsection:

18 “(c) CERTAIN INVESTMENT COMPANIES.—If the
19 Securities and Exchange Commission determines in accord-
20 ance with regulations issued by it, and certifies to the Secre-
21 tary not more than 60 days prior to the close of the taxable
22 year of a registered management company, that such invest-
23 ment company is principally engaged in the furnishing of
24 capital to other corporations which are principally engaged
25 in the development or exploitation of inventions, tech-

1 nological developments, new processes, or products not
2 previously generally available, such investment company
3 may, in the computation of 50 per centum of the value of
4 its assets under subparagraph (A) of subsection (b) (3)
5 for any quarter of such taxable year, include with respect
6 to any issuer securities which constitute more than 10 per
7 centum of the outstanding voting securities of such issuer if
8 the investment company has not continuously held any
9 security of such issuer (or of any predecessor company
10 of such issuer as determined under regulations prescribed
11 by the Secretary) for 10 or more years preceding such
12 quarter of such taxable year. The provisions of this sub-
13 section shall not apply at the close of any quarter of a tax-
14 able year to an investment company if at the close of such
15 quarter more than 25 per centum of the value of its total
16 assets is represented by securities of issuers with respect
17 to each of which the investment company holds more than
18 10 per centum of the outstanding voting securities of such
19 issuer and in respect of each of which or any predecessor
20 thereof the investment company has continuously held any
21 security for 10 or more years preceding such quarter unless
22 the value of its total assets so represented is reduced to
23 25 per centum or less within 30 days after the close of such
24 quarter. The terms used in this subsection shall have the
25 same meaning as in subsection (b) (3) of this section. For

1 the purposes of this subsection, a corporation shall be con-
2 sidered to be principally engaged in the development or
3 exploitation of inventions, technological improvements, new
4 processes, or products not previously generally available, for
5 at least 10 years after the date of the first acquisition of any
6 security in such corporation or any predecessor thereof by
7 such investment company if at the date of such acquisition
8 the corporation or its predecessor was principally so en-
9 gaged. For the purposes of the certification hereunder, the
10 Securities and Exchange Commission shall have authority to
11 issue such rules, regulations and orders, and to conduct such
12 investigations and hearings, either public or private, as it
13 may deem appropriate.”

14 (b) TECHNICAL AMENDMENT. Section 361 (b) (3)
15 (A) is hereby amended by inserting after “the total assets
16 of the taxpayer and” the following: “, except and to the
17 extent provided in subsection (c),”.

18 (c) EFFECTIVE DATE.—The amendments made by this
19 section shall be applicable only with respect to taxable years
20 beginning after December 31, 1950.

21 **SEC. 313. FAMILY PARTNERSHIPS.**

22 (a) DEFINITION OF PARTNER.—Section 3797 (a) (2)
23 is hereby amended by adding at the end thereof the follow-
24 ing: “A person shall be recognized as a partner for income
25 tax purposes if he owns a capital interest in a partnership in

1 which capital is a material income-producing factor, whether
2 or not such interest was derived by purchase or gift from
3 any other person.”

4 (b) ALLOCATION OF PARTNERSHIP INCOME.—Sup-
5 plement F of chapter 1 is hereby amended by adding at
6 the end thereof the following new section:

7 **“SEC. 191. FAMILY PARTNERSHIPS.**

8 “In the case of any partnership interest created by
9 gift, the distributive share of the donee under the partner-
10 ship agreement shall be includible in his gross income, except
11 to the extent that such share is determined without allow-
12 ance of reasonable compensation for services rendered to
13 the partnership by the donor, and except to the extent that
14 the portion of such share attributable to donated capital is
15 proportionately greater than the share of the donor attribut-
16 able to the donor’s capital. The distributive share of a part-
17 ner in the earnings of the partnership shall not be dimin-
18 ished because of absence due to military service. For the
19 purpose of this section, an interest purchased by one mem-
20 ber of a family from another shall be considered to be created
21 by gift from the seller, and the fair market value of the pur-
22 chased interest shall be considered to be donated capital.
23 The ‘family’ of any individual shall include only his spouse,
24 ancestors, and lineal descendants, and any trust for the
25 primary benefit of such persons.”

1 (c) **EFFECTIVE DATE.**—The amendments made by this
 2 section shall be applicable with respect to taxable years
 3 beginning after December 31, 1950. The determination
 4 as to whether a person shall be recognized as a partner for
 5 income tax purposes for any taxable year beginning before
 6 January 1, 1951 shall be made as if this section had not
 7 been enacted and without inferences drawn from the fact
 8 that this section is not expressly made applicable with
 9 respect to taxable years beginning before January 1, 1951.

10 **TITLE IV—EXCISE TAXES**

11 **Part I—Tax on Admissions and Cabarets**

12 **SEC. 401. REMOVAL OF TAX ON FREE ADMISSIONS.**

13 Section 1700 (a) (1) (relating to tax on single or
 14 season tickets) is hereby amended by striking out the
 15 second and fourth sentences thereof.

16 **SEC. 402. EXEMPTIONS FROM ADMISSIONS TAX.**

17 (a) **REINSTATEMENT OF PREWAR EXEMPTIONS.**—
 18 Notwithstanding section 541 (b) of the Revenue Act of
 19 1941, the provisions of section 1701 (relating to exemptions
 20 from the admissions tax) shall apply to amounts paid on
 21 or after the effective date specified in section 403 of this
 22 Act for admissions on or after such date.

23 (b) **AMENDMENT OF SECTION 1701 (a).**—Section
 24 1701 (a) (relating to religious, educational, or charitable
 25 entertainments) is hereby amended to read as follows:

1 “(a) RELIGIOUS, EDUCATIONAL, OR CHARITABLE
2 ENTERTAINMENTS, ETC.—

3 “(1) IN GENERAL.—Except as provided in para-
4 graph (2), any admissions all the proceeds of which
5 inure—

6 “(A) exclusively to the benefit of religious,
7 educational, or charitable institutions, societies, or
8 organizations, societies for the prevention of cruelty
9 to children or animals, or societies or organizations
10 conducted for the sole purpose of maintaining sym-
11 phony orchestras and receiving substantial support
12 from voluntary contributions or of maintaining a
13 cooperative or community center moving-picture
14 theatre—if no part of the net earnings thereof inures
15 to the benefit of any private stockholder or indi-
16 vidual;

17 “(B) exclusively to the benefit of National
18 Guard organizations, Reserve Officers’ associations
19 or organizations, posts or organizations of war vet-
20 erans, or auxiliary units or societies of any such posts
21 or organizations, if such posts, organizations, units,
22 or societies are organized in the United States or any
23 of its possessions, and if no part of their net earn-
24 ings inures to the benefit of any private stockholder
25 or individual; or

1 “(C) exclusively to the benefit of a police or
2 fire department of any city, town, village, or other
3 municipality, or exclusively to a fund for the sole
4 benefit of members of such a police or fire depart-
5 ment or the dependents or heirs of such members.

6 “(2) NONEXEMPT ADMISSIONS.—The exemption
7 provided under paragraph (1) shall not apply in the
8 case of admissions to (A) any athletic game or exhibi-
9 tion unless the proceeds inure exclusively to the benefit
10 of an elementary or secondary school, (B) wrestling
11 matches, prize fights, or boxing, sparring, or other pugi-
12 listic matches or exhibitions, or (C) carnivals, rodeos, or
13 circuses in which any professional performer or operator
14 participates for compensation.”

15 (c) ADMISSIONS TO MUNICIPAL SWIMMING POOLS,
16 ETC.—Section 1701 is hereby amended by striking out the
17 period at the end of subsection (c) and inserting in lieu
18 thereof “; or” and by adding at the end of such section the
19 following new subsection:

20 “(d) MUNICIPAL SWIMMING POOLS, ETC.—Any ad-
21 missions to swimming pools, bathing beaches, skating rinks,
22 or other places providing facilities for physical exercise, op-
23 erated by any State or political subdivision thereof or by the
24 United States or any agency or instrumentality thereof—if
25 the proceeds therefrom inure exclusively to the benefit of

1 the State, political subdivision, United States, agency, or
2 instrumentality. For the purposes of this subsection the
3 term 'State' includes Alaska, Hawaii, and the District of
4 Columbia."

5 **SEC. 403. EFFECTIVE DATE OF AMENDMENTS RELATING**
6 **TO ADMISSIONS.**

7 The amendments made by sections 401 and 402 shall
8 be applicable with respect to amounts paid on or after the
9 first day of the first month which begins more than ten
10 days after the date of the enactment of this Act for admis-
11 sions on or after such date.

12 **SEC. 404. TAX ON CABARETS, ROOF GARDENS, ETC.**

13 (a) **BALLROOMS AND DANCE HALLS.**—Section 1700

14 (e) (1) (relating to tax on cabarets, roof gardens, etc.) is
15 hereby amended by inserting after the second sentence
16 thereof the following new sentence: "In no case shall such
17 term include any ballroom, dance hall, or other similar place
18 where the serving or selling of food, refreshment, or mer-
19 chandise is merely incidental, unless such place would be
20 considered, without the application of the preceding sentence,
21 as a 'roof garden, cabaret, or other similar place'."

22 (b) **EFFECTIVE DATE.**—The amendment made by
23 subsection (a) shall be applicable only with respect to
24 periods after 10 antemeridian on the first day of the first

1 month which begins more than ten days after the date of the
2 enactment of this Act.

3 **Part II—Tax on Cigarettes**

4 **SEC. 421. TAX ON CIGARETTES.**

5 (a) INCREASE IN RATE.—Section 2000 (c) (2)
6 (tax on cigarettes) is hereby amended by striking out
7 “\$3.50” and inserting in lieu thereof “\$4”.

8 (b) EFFECTIVE DATE.—The amendment made by sub-
9 section (a) shall take effect on the first day of the first
10 month which begins more than 10 days after the date of
11 the enactment of this Act.

12 **SEC. 422. FLOOR STOCKS TAX ON CIGARETTES.**

13 Section 2000 (relating to tax on tobacco, etc.) is hereby
14 amended by adding at the end thereof the following new
15 subsection:

16 “(f) 1951 FLOOR STOCKS TAX.—

17 “(1) TAX.—Upon cigarettes subject to tax under
18 this section weighing not more than three pounds per
19 thousand, which on the effective date of section 421
20 of the Revenue Act of 1951 are held by any person
21 for sale, there shall be levied, assessed, collected, and
22 paid a floor stocks tax at a rate equal to the increase
23 in rate of tax made applicable to such cigarettes by the
24 Revenue Act of 1951.

25 “(2) RETURNS.—Every person required by this

1 subsection to pay any floor stocks tax shall, on or before
2 the end of the month next following the month in which
3 section 421 (a) of the Revenue Act of 1951 takes effect,
4 under such regulations as the Secretary shall prescribe,
5 make a return and pay such tax, except that in the case
6 of such cigarettes held by manufacturers and importers,
7 the Secretary may collect the tax with respect to such
8 cigarettes by means of stamps rather than return, and
9 in such case may make an assessment against such manu-
10 facturer or importer having cigarette tax stamps on
11 hand on the effective date of such section for the differ-
12 ence between the amount paid for such stamps and the
13 increased rate imposed by such section.

14 “(3) LAWS APPLICABLE.—All provisions of law,
15 including penalties, applicable in respect of the taxes
16 imposed by section 2000, shall, insofar as applicable
17 and not inconsistent with this subsection, be applicable
18 with respect to the floor stocks tax imposed by this
19 subsection.”

20 Part III—Retailers' Excise Taxes

21 SEC. 431. TAX ON LIGHTERS.

22 Section 2400 (relating to retailers' excise tax on jewelry,
23 etc.) is hereby amended by striking out in the first sentence
24 thereof the words “and binoculars.” and inserting in lieu

1 thereof the following: “binoculars; and mechanical lighters
2 for cigarettes, cigars, or pipes.”

3 **SEC. 432. RETAILERS' EXCISE TAX ON TOILET PREPARA-**
4 **TIONS.**

5 (a) **BABY OILS, ETC.**—Section 2402 (a) is hereby
6 amended by adding at the end thereof the following new sen-
7 tence: “The tax imposed by this subsection shall not apply
8 to lotion, oil, powder, or other article intended to be used or
9 applied only in the care of babies.”

10 (b) **SALES TO BARBER SHOPS, ETC.**—Section 2402
11 (b) is hereby amended to read as follows:

12 “(b) **BEAUTY PARLORS, ETC.**—For the purposes of
13 subsection (a), the sale of any article described in such sub-
14 section to any person operating a barbershop, beauty parlor,
15 or similar establishment for use in the operation thereof, or
16 for resale, shall not be considered as a sale at retail. The
17 resale of such article at retail by such person shall be subject
18 to the provisions of subsection (a).”

19 **SEC. 433. EFFECTIVE DATE OF PART III.**

20 The amendments made by this part shall apply only
21 to articles sold on or after the first day of the first month
22 which begins more than ten days after the date of the enact-
23 ment of this Act.

Part IV—Diesel Fuel**SEC. 441. DIESEL FUEL USED IN HIGHWAY VEHICLES.**

(a) IMPOSITION OF TAX.—The Internal Revenue Code is hereby amended by adding after chapter 19 the following new chapter:

“CHAPTER 20—DIESEL FUEL**“SEC. 2450. TAX ON DIESEL FUEL.**

“There is hereby imposed a tax of 2 cents a gallon upon any liquid (other than any product taxable under section 3412) —

“(1) sold by any person to an owner, lessee, or other operator of a diesel-powered highway vehicle, for use as a fuel in such vehicle, or

“(2) used by any person as a fuel in a diesel-powered highway vehicle unless there was a taxable sale of such liquid under clause (1).

“SEC. 2451. RETURNS AND PAYMENT.

“(a) REQUIREMENT.—Every person liable for tax under this chapter shall make returns and pay the taxes due to the collector for the district in which is located his principal place of business, or if he has no principal place of business in the United States, then to the collector at Baltimore, Maryland. Such returns shall contain such information and

1 be made at such times and in such manner as the Secretary
2 may by regulations prescribe.

3 “(b) INTEREST.—The tax shall, without assessment or
4 notice, be due and payable to the collector at the time pre-
5 scribed for filing the return. If the tax is not paid when
6 due, there shall be added as part of the tax interest at the
7 rate of 6 per centum per annum from the time when the
8 tax became due until paid.

9 **“SEC. 2452. CREDITS AND REFUNDS.**

10 “(a) NON-TAXABLE USE OR SALE BY VENDEE.—A
11 credit against tax under this chapter, or a refund, may be
12 allowed or made to a person in the amount of tax paid by
13 him under this chapter with respect to his sale of any liquid
14 to a vendee for use as fuel in a diesel-powered highway
15 vehicle, if such person establishes, in accordance with regu-
16 lations prescribed by the Secretary, that—

17 “(1) the vendee used such liquid otherwise than
18 as fuel in such a vehicle or resold such liquid, and

19 “(2) such person has repaid or agreed to repay
20 the amount of such tax to such vendee, or has obtained
21 the consent of the vendee to the allowance of the credit
22 or refund.

23 No interest shall be allowed with respect to any amount of
24 tax credited or refunded under the provisions of this sub-
25 section.

1 “(b) **PROOF REQUIRED IN CASE OF CERTAIN OVER-**
2 **PAYMENTS.**—No overpayment of tax under this chapter
3 shall be credited or refunded (otherwise than under sub-
4 section (a)) in pursuance of a court decision or otherwise,
5 unless the person who paid the tax establishes, in accord-
6 ance with regulations prescribed by the Secretary, (1) that
7 he has not included the tax in the price of the article with
8 respect to which it was imposed, or collected the amount
9 of tax from the vendee, or (2) that he has repaid the amount
10 of the tax to the ultimate purchaser of the article, or files
11 with the Secretary written consent of such ultimate pur-
12 chaser to the allowance of the credit or refund.

13 **“SEC. 2453. TAX-FREE SALES.**

14 “Under regulations prescribed by the Secretary, no tax
15 under this chapter shall be imposed with respect to the
16 sale of any liquid for the exclusive use of any State, Terri-
17 tory of the United States, or any political subdivision of the
18 foregoing, or the District of Columbia, or with respect to
19 the use by any of the foregoing of any liquid as fuel in a
20 diesel-powered highway vehicle.

21 **“SEC. 2454. APPLICABILITY OF ADMINISTRATIVE PROVI-**
22 **SIONS.**

23 “All provisions of law (including penalties) applicable
24 in respect of the taxes imposed by section 2700 shall, inso-

1 far as applicable and not inconsistent with this chapter, be
2 applicable in respect of the taxes imposed by this chapter.

3 **“SEC. 2455. RULES AND REGULATIONS.**

4 “The Secretary shall prescribe and publish all needful rules
5 and regulations for the enforcement of this chapter.”

6 (b) **EFFECTIVE DATE.**—The amendment made by sub-
7 section (a) shall take effect on the first day of the first
8 month which begins more than ten days after the date of
9 the enactment of this Act.

10 **Part V—Liquor**

11 **SEC. 451. INCREASE IN TAX ON DISTILLED SPIRITS FROM**
12 **\$9 TO \$10.50 PER GALLON.**

13 (a) **DISTILLED SPIRITS GENERALLY.**—Section 2800
14 (a) (1) is hereby amended by striking out “\$6” and in-
15 serting in lieu thereof “\$10.50”.

16 (b) **IMPORTED PERFUMES CONTAINING DISTILLED**
17 **SPIRITS.**—Section 2800 (a) (3) is hereby amended by
18 striking out “\$6” and inserting in lieu thereof “\$10.50”.

19 (c) **FLOOR STOCKS TAX.**—Section 2800 is amended
20 by inserting at the end thereof the following new subsection:

21 “(1) **1951 FLOOR STOCKS TAX.**—

22 “(1) **TAX.**—Upon all distilled spirits upon which
23 the internal revenue tax imposed by law has been paid,
24 and which on the effective date of section 451 (a) of
25 the Revenue Act of 1951, are held and intended for sale

1 or for use in the manufacture or production of any article
2 intended for sale, there shall be levied, assessed, col-
3 lected, and paid a floor stocks tax of \$1.50 on each proof-
4 gallon, and a proportionate tax at a like rate on all frac-
5 tional parts of such proof-gallon.

6 “(2) RETURNS.—Under such regulations as the
7 Secretary shall prescribe, every person required by
8 paragraph (1) to pay any floor stocks tax shall, on or
9 before the end of the thirtieth day following the effective
10 date of section 451 (a) of the Revenue Act of 1951
11 make a return and shall, on or before the first day of
12 the third month following such effective date, pay such
13 tax. Payment of the tax shown to be due may be ex-
14 tended to a date not later than the first day of the tenth
15 month following the effective date of such section upon
16 the filing of a bond for payment thereof in such form
17 and amount and with such surety or sureties as the
18 Secretary may prescribe.

19 “(3) LAWS APPLICABLE.—All provisions of law,
20 including penalties, applicable in respect of internal
21 revenue taxes on distilled spirits shall, insofar as appli-
22 cable and not inconsistent with this subsection, be appli-
23 cable in respect of the floor stocks tax imposed here-
24 under. For the purposes of this subsection the term
25 ‘distilled spirits’ shall include products produced in such

1 manner that the person producing them is a rectifier
2 within the meaning of section 3254 (g).”

3 SEC. 452. WINES.

4 (a) INCREASE IN RATE OF TAX.—

5 (1) STILL WINES.—So much of section 3030 (a)

6 (1) (A) (tax on still wines, etc.) as precedes the sec-
7 ond sentence thereof is hereby amended to read as
8 follows:

9 “(A) Imposition.—Upon all still wines, in-
10 cluding vermouth, and all artificial or imitation
11 wines or compounds sold as still wine, produced in
12 or imported into the United States on or after the
13 effective date of section 452 (a) of the Revenue
14 Act of 1951, or which on such date were on any
15 winery premises or other bonded premises or in
16 transit thereto or at any custom house, there shall
17 be levied, collected, and paid taxes at rates as fol-
18 lows, when sold, or removed for consumption or
19 sale:

20 “On wines containing not more than 14 per
21 centum of absolute alcohol, 17 cents per wine-
22 gallon, the per centum of alcohol under this section
23 to be reckoned by volume and not by weight;

1 “On wines containing more than 14 per centum
2 and not exceeding 21 per centum of absolute alco-
3 hol, 67 cents per wine-gallon;

4 “On wines containing more than 21 per centum
5 and not exceeding 24 per centum of absolute alcohol,
6 \$2.25 per wine-gallon;

7 “All such wines containing more than 24 per
8 centum of absolute alcohol by volume shall be classed
9 as distilled spirits and shall pay tax accordingly.”

10 (2) SPARKLING WINES, LIQUEURS, AND COR-
11 DIALS.—Section 3030 (a) (2) (tax on sparkling wines,
12 liqueurs, and cordials) is hereby amended as follows:

13 (A) By striking out “after June 30, 1940, or
14 which on July 1, 1940” and inserting in lieu thereof
15 “on or after the effective date of section 452 (a)
16 of the Revenue Act of 1951, or which on such date”;

17 (B) By striking out “10 cents” and inserting
18 in lieu thereof “17 cents”; and

19 (C) By striking out “5 cents” each place it
20 occurs and inserting in lieu thereof “12 cents”.

21 (b) FLOOR STOCKS.—Subchapter F of chapter 26 is
22 hereby amended by inserting at the end thereof the following
23 new section:

1 **"SEC. 3195. 1951 FLOOR STOCKS TAX ON WINES.**

2 “(a) Upon all wines upon which the internal revenue
3 tax imposed by law has been paid, and which on the effective
4 date of section 452 (a) of the Revenue Act of 1951 are held
5 and intended for sale or for use in the manufacture or pro-
6 duction of an article intended for sale, there shall be levied,
7 assessed, collected, and paid a floor stocks tax at rates equal
8 to the increases in rates of tax made applicable to such articles
9 by section 452 (a) of the Revenue Act of 1951.

10 “(b) RETURNS.—Under such regulations as the Secre-
11 tary shall prescribe, every person required by subsection (a)
12 to pay any floor stocks tax shall, on or before the end of the
13 thirtieth day following the effective date of section 452 (a)
14 of the Revenue Act of 1951 make a return and shall, on or
15 before the first day of the third month following such effec-
16 tive date, pay such tax. Payment of the tax shown to be due
17 may be extended to a date not later than the first day of the
18 tenth month following the effective date of section 452 (a)
19 of the Revenue Act of 1951, upon the filing of a bond for
20 payment thereof in such form and amount and with such
21 surety or sureties as the Secretary may prescribe.

22 “(c) LAWS APPLICABLE.—All provisions of law, in-
23 cluding penalties, applicable in respect of the taxes imposed
24 by section 3030 (a) shall, insofar as applicable and not in-

1 consistent with this section, be applicable with respect to the
2 floor stocks tax imposed by subsection (a).”

3 **SEC. 453. FERMENTED MALT LIQUOR.**

4 (a) INCREASE IN TAX ON FERMENTED MALT LIQUORS
5 FROM \$8 TO \$9 PER BARREL.—Section 3150 (a) (tax
6 on fermented malt liquors) is hereby amended (1) by strik-
7 ing out “\$7” and inserting in lieu thereof “\$9”, and (2)
8 by striking out the second sentence thereof.

9 (b) FLOOR STOCKS TAX.—Section 3150 is hereby
10 amended by inserting at the end thereof the following new
11 subsection:

12 “(g) 1951 FLOOR STOCKS TAX.—

13 “(1) TAX.—Upon all fermented malt liquors upon
14 which the internal revenue tax imposed by law has been
15 paid, and which on the effective date of section 453 (a)
16 of the Revenue Act of 1951 are held by any person and
17 intended for sale there shall be levied, assessed, collected,
18 and paid a floor stocks tax at a rate of \$1 per barrel of
19 31 gallons.

20 “(2) RETURNS.—Under such regulations as the
21 Secretary shall prescribe, every person required by para-
22 graph (1) to pay any floor stocks tax shall, on or before
23 the end of the thirtieth day following the effective date
24 of section 453 (a) of the Revenue Act of 1951 make a

1 return and shall, on or before the first day of the third
2 month following such effective date, pay such tax. Pay-
3 ment of the tax shown to be due may be extended to a
4 date not later than the first day of the tenth month
5 following the effective date of section 453 (a) of the
6 Revenue Act of 1951, upon the filing of a bond for
7 payment thereof in such form and amount and with such
8 surety or sureties as the Secretary may prescribe.

9 “(3) LAWS APPLICABLE.—All provisions of law,
10 including penalties, applicable in respect of the taxes
11 imposed by subsection (a) shall, insofar as applicable
12 and not inconsistent with this subsection, be applicable
13 with respect to the floor stocks tax imposed by this
14 subsection.”

15 SEC. 454. CLERICAL AMENDMENT.

16 The table contained in section 1650 (relating to the war
17 tax rates of certain miscellaneous taxes) is hereby amended
18 by striking out the following:

2800 (a) (1)-----	Distilled Spirits-----	\$6 per gallon-----	\$9 per gallon.
2800 (a) (3)-----	Imported Perfumes Containing Distilled Spirits.	\$6 per gallon-----	\$9 per gallon.
3030 (a) (1)-----	Still Wines:		
	(1) Not over 14% of Alcohol...	10 cents per gallon-----	15 cents per gallon.
	(2) Over 14% and not over 21% of Alcohol.	40 cents per gallon-----	60 cents per gallon.
	(3) Over 21% and not over 24% of Alcohol.	\$1 per gallon-----	\$2 per gallon.
3030 (a) (2)-----	Sparkling Wines, Liqueurs, and Cordials:		
	(1) Champagne or Sparkling Wine.	10 cents per half-pint or fraction thereof.	15 cents per half-pint or fraction thereof.
	(2) Artificially Carbonated Wine.	5 cents per half-pint or fraction thereof.	10 cents per half-pint or fraction thereof.
	(3) Liqueurs, Cordials, Etc...	5 cents per half-pint or fraction thereof.	10 cents per half-pint or fraction thereof.
3150-----	Fermented Malt Liquors-----	\$7 per barrel-----	\$8 per barrel.”

1 **SEC. 455. EFFECTIVE DATE OF PART V.**

2 The amendments made by this part shall take effect on
3 the first day of the first month which begins more than
4 10 days after the date of the enactment of this Act.

5 **Part VI—Occupational Taxes**

6 **SEC. 461. DEALERS IN LIQUORS.**

7 (a) **WHOLESALE DEALERS IN LIQUORS.**—Section
8 3250 (a) (1) (relating to occupational tax on wholesale
9 dealers in liquors) is hereby amended by striking out “\$110”
10 and inserting in lieu thereof “\$200”.

11 (b) **RETAIL DEALERS IN LIQUORS.**—Section 3250
12 (b) (1) (relating to occupational tax on retail dealers in
13 liquors) is hereby amended by striking out “\$27.50” and
14 inserting in lieu thereof “\$50”.

15 (c) **WHOLESALE DEALERS IN MALT LIQUORS.**—Sec-
16 tion 3250 (d) (1) (relating to tax on wholesale dealers in
17 malt liquors) is hereby amended by striking out “\$55” and
18 inserting in lieu thereof “\$100”.

19 **SEC. 462. DRAWBACK IN THE CASE OF DISTILLED SPIRITS**
20 **USED IN THE MANUFACTURE OF CERTAIN NON-**
21 **BEVERAGE PRODUCTS.**

22 (a) **DRAWBACK.**—Section 3250 (1) (5) (relating to
23 manufacture of certain nonbeverage products) is hereby
24 amended by striking out “\$3.75” and inserting in lieu
25 thereof “\$9.50”.

1 (b) **EFFECTIVE DATE.**—The amendment made by sub-
 2 section (a) shall be applicable only with respect to distilled
 3 spirits used on or after the first day of the first month which
 4 begins more than ten days after the date of the enactment
 5 of this Act, and on which the internal revenue tax was paid
 6 at the rate of \$10.50 specified in section 2800 (a) (1) or
 7 at a rate equivalent to such rate.

8 (c) **TECHNICAL AMENDMENT.**—Section 309 (c) of the
 9 Revenue Act of 1943 is hereby amended by adding at the
 10 end thereof the following: “Subsection (b) shall not be
 11 applicable in any case in which drawback is allowed at the
 12 rate of \$9.50 under section 3250 (1) (5) of the Internal
 13 Revenue Code, as amended by the Revenue Act of 1951.”

14 **SEC. 463. TAX ON COIN-OPERATED GAMING DEVICES.**

15 Section 3267 (a) (tax on coin-operated gaming de-
 16 vices) is hereby amended by striking out “\$150” wherever
 17 appearing therein and inserting in lieu thereof “\$250”.

18 **SEC. 464. TAX ON BOWLING ALLEYS AND BILLIARD AND**
 19 **POOL TABLES.**

20 (a) **INCREASE IN RATE.**—Section 3268 (relating to
 21 rate of tax) is hereby amended by striking out “\$10” and
 22 inserting in lieu thereof “\$25”.

1 (b) CLERICAL AMENDMENT.—The table contained in
 2 section 1650 (relating to the war tax rates of certain mis-
 3 cellaneous taxes) is hereby amended by striking out the
 4 following:

"3268-----| Billiard and Pool Tables; and | \$10 per year per table; | \$20 per year per table; \$20
 | Bowling Alleys. | \$10 per year per alley. | per year per alley."

5 **SEC. 465. EFFECTIVE DATE OF PART VI.**

6 The amendments made by sections 461, 463, and 464
 7 shall take effect on the first day of the first month which
 8 begins more than ten days after the date of the enactment
 9 of this Act. In the case of the year beginning July 1, 1951,
 10 where the trade or business on which the tax is imposed
 11 was commenced prior to the first day of the month specified
 12 in the preceding sentence, the increase in tax resulting from
 13 such amendments shall be reckoned proportionately from
 14 the first day of such month to and including the thirtieth
 15 day of June following and shall be due on, and payable on
 16 or before, the last day of the month specified in the preced-
 17 ing sentence.

18 **Part VII—Wagering**

19 **SEC. 471. WAGERING TAXES.**

20 (a) IMPOSITION OF TAXES.—Subtitle B (relating to
 21 miscellaneous taxes) is hereby amended by inserting after
 22 chapter 27 the following new chapter:

1 **“CHAPTER 27A—WAGERING TAXES**

2 **“Subchapter A—Tax on Wagers**

3 **“SEC. 3285. TAX.**

4 “(a) **WAGERS.**—There shall be imposed on wagers, as
5 defined in subsection (b), an excise tax equal to 10 per
6 centum of the amount thereof.

7 “(b) **DEFINITIONS.**—For the purposes of this chapter—

8 “(1) The term ‘wager’ means (A) any wager
9 with respect to a sports event or a contest placed with a
10 person engaged in the business of accepting such wagers,
11 (B) any wager placed in a wagering pool with respect
12 to a sports event or a contest, if such pool is conducted
13 for profit, and (C) any wager placed in a lottery con-
14 ducted for profit.

15 “(2) The term ‘lottery’ includes the numbers game,
16 policy, and similar types of wagering. The term does
17 not include (A) any game of a type in which usually
18 (i) the wagers are placed, (ii) the winners are deter-
19 mined, and (iii) the distribution of prizes or other
20 property is made, in the presence of all persons placing
21 wagers in such game, and (B) any drawing conducted
22 by an organization exempt from tax under section 101, if
23 no part of the net proceeds derived from such drawing
24 inures to the benefit of any private shareholder or
25 individual.

1 “(c) AMOUNT OF WAGER.—In determining the amount
2 of any wager for the purposes of this subchapter, all charges
3 incident to the placing of such wager shall be included;
4 except that if the taxpayer establishes, in accordance with
5 regulations prescribed by the Secretary, that an amount
6 equal to the tax imposed by this subchapter has been col-
7 lected as a separate charge from the person placing such
8 wager, the amount so collected shall be excluded.

9 “(d) PERSONS LIABLE FOR TAX.—Each person who is
10 engaged in the business of accepting wagers shall be liable
11 for and shall pay the tax under this subchapter on all wagers
12 placed with him. Each person who conducts any wagering
13 pool or lottery shall be liable for and shall pay the tax under
14 this subchapter on all wagers placed in such pool or lottery.

15 “(e) EXCLUSIONS FROM TAX.—No tax shall be im-
16 posed by this subchapter (1) on any wager placed with,
17 or on any wager placed in a wagering pool conducted by, a
18 parimutuel wagering enterprise licensed under State law,
19 and (2) on any wager placed in a coin-operated device with
20 respect to which an occupational tax is imposed by section
21 3267.

22 “(f) TERRITORIAL EXTENT.—The tax imposed by this
23 subchapter shall apply only to wagers (1) accepted in the
24 United States, or (2) placed by a person who is in the
25 United States (A) with a person who is a citizen or resident

1 of the United States, or (B) in a wagering pool or lottery
2 conducted by a person who is a citizen or resident of the
3 United States.

4 **"SEC. 3286. CREDITS AND REFUNDS.**

5 " (a) No overpayment of tax under this subchapter shall
6 be credited or refunded (otherwise than under subsection
7 (b)), in pursuance of a court decision or otherwise, unless
8 the person who paid the tax establishes, in accordance with
9 regulations prescribed by the Secretary, (1) that he has
10 not collected (whether as a separate charge or otherwise)
11 the amount of the tax from the person who placed the wager
12 on which the tax was imposed, or (2) that he has repaid the
13 amount of the tax to the person who placed such wager,
14 or unless he files with the Secretary written consent of the
15 person who placed such wager to the allowance of the credit
16 or the making of the refund. In the case of any laid-off
17 wager, no overpayment of tax under this subchapter shall
18 be so credited or refunded to the person with whom such
19 laid-off wager was placed unless he establishes, in accord-
20 ance with regulations prescribed by the Secretary, that the
21 provisions of the preceding sentence have been complied
22 with both with respect to the person who placed the laid-off
23 wager with him and with respect to the person who placed
24 the original wager.

25 " (b) Where any taxpayer lays off part or all of a wager

1 with another person who is liable for tax under this sub-
2 chapter on the amount so laid off, a credit against the tax
3 imposed by this subchapter shall be allowed, or a refund
4 shall be made to, the taxpayer laying off such amount. Such
5 credit or refund shall be in an amount which bears the same
6 ratio to the amount of tax which such taxpayer paid under
7 this subchapter on the original wager as the amount so laid
8 off bears to the amount of the original wager. Credit or
9 refund under this subsection shall be allowed or made only
10 in accordance with regulations prescribed by the Secretary;
11 and no interest shall be allowed with respect to any amount
12 so credited or refunded.

13 **"SEC. 3287. CERTAIN PROVISIONS MADE APPLICABLE.**

14 "All provisions of law, including penalties, applicable
15 with respect to any tax imposed by section 2700 shall,
16 insofar as applicable and not inconsistent with the provisions
17 of this subchapter, be applicable with respect to the tax
18 imposed by this subchapter. In addition to all other records
19 required pursuant to section 2709, each person liable for tax
20 under this subchapter shall keep a daily record showing the
21 gross amount of all wagers on which he is so liable.

22 **"Subchapter B—Occupational Tax**

23 **"SEC. 3290. TAX.**

24 "A special tax of \$50 per year shall be paid by each
25 person who is liable for tax under subchapter A or who is en-

1 gaged in receiving wagers for or on behalf of any person
2 so liable.

3 **“SEC. 3291. REGISTRATION.**

4 “(a) Each person required to pay a special tax under
5 this subchapter shall register with the collector of the
6 district—

7 “(1) his name and place of residence;

8 “(2) if he is liable for tax under subchapter A, each
9 place of business where the activity which makes him so
10 liable is carried on, and the name and place of resi-
11 dence of each person who is engaged in receiving wagers
12 for him or on his behalf; and

13 “(3) if he is engaged in receiving wagers for or on
14 behalf of any person liable for tax under subchapter
15 A, the name and place of residence of each such person.

16 “(b) Where subsection (a) requires the name and
17 place of residence of a firm or company to be registered,
18 the names and places of residence of the several persons
19 constituting the firm or company shall be registered.

20 “(c) In accordance with regulations prescribed by the
21 Secretary, the collector may require from time to time such
22 supplemental information from any person required to regis-
23 ter under this section as may be needful to the enforcement
24 of this chapter.

1 **“SEC. 3292. CERTAIN PROVISIONS MADE APPLICABLE.**

2 “Sections 3271, 3273 (a), 3275, 3276, 3277, 3279, and
3 3280 shall extend to and apply to the special tax imposed
4 by this subchapter and to the persons upon whom it is
5 imposed, and for that purpose any activity which makes a
6 person liable for special tax under this subchapter shall be
7 considered to be a business or occupation described in chap-
8 ter 27. No other provision of subchapter B of chapter 27
9 shall so extend or apply.

10 **“SEC. 3293. POSTING.**

11 “Every person liable for special tax under this sub-
12 chapter shall place and keep conspicuously in his principal
13 place of business the stamp denoting the payment of such
14 special tax; except that if he has no such place of business,
15 he shall keep such stamp on his person, and exhibit it, upon
16 request, to any officer or employee of the Bureau of Internal
17 Revenue.

18 **“SEC. 3294. PENALTIES.**

19 “(a) **FAILURE TO PAY TAX.**—Any person who does
20 any act which makes him liable for special tax under this
21 subchapter, without having paid such tax, shall, besides be-
22 ing liable to the payment of the tax, be fined not less than
23 \$1,000 and not more than \$5,000.

1 “(b) FAILURE TO POST OR EXHIBIT STAMP.—Any
 2 person who, through negligence, fails to comply with section
 3 3293, shall be liable to a penalty of \$50, and the cost of
 4 prosecution. Any person who, through willful neglect or
 5 refusal, fails to comply with section 3293, shall be liable to a
 6 penalty of \$100, and the cost of prosecution.

7 “(c) WILLFUL VIOLATIONS.—The penalties prescribed
 8 by section 2707 with respect to the tax imposed by section
 9 2700 shall apply with respect to the tax imposed by this
 10 subchapter.

11 **“Subchapter C—Miscellaneous Provisions**

12 **“SEC. 3297. APPLICABILITY OF FEDERAL AND STATE LAWS.**

13 “The payment of any tax imposed by this chapter with
 14 respect to any activity shall not exempt any person from any
 15 penalty provided by a law of the United States or of any
 16 State for engaging in the same activity, nor shall the payment
 17 of any such tax prohibit any State from placing a tax on the
 18 same activity for State or other purposes.

19 **“SEC. 3298. INSPECTION OF BOOKS.**

20 “Notwithstanding section 3631, the books of account of
 21 any person liable for tax under this chapter may be examined
 22 and inspected as frequently as may be needful to the en-
 23 forcement of this chapter.”

24 (b) TECHNICAL AMENDMENT.—Section 3310 (f)
 25 (relating to discretion allowed the Commissioner with re-

1 spect to returns and payment of tax) is hereby amended by
 2 inserting after “subchapter A of chapter 25,” the following:
 3 “subchapter A of chapter 27A,”.

4 **SEC. 472. EFFECTIVE DATE OF PART VII.**

5 The tax imposed by subchapter A of chapter 27A, as
 6 added by section 471, shall apply only with respect to
 7 wagers placed on or after the first day of the first month
 8 which begins more than 10 days after the date of enactment
 9 of this Act. No tax shall be payable under subchapter B of
 10 chapter 27A, as added by section 471, with respect to any
 11 period prior to the first day of the first month which begins
 12 more than 10 days after the date of enactment of this Act.

13 **Part VIII—Manufacturers’ Excise Taxes**

14 **SEC. 481. AUTOMOBILES, TRUCKS, AND PARTS OR ACCES-**
 15 **SORIES.**

16 (a) **INCREASE IN TAX ON TRUCKS.**—Section 3403

17 (a) (tax on trucks, busses, etc.) is hereby amended by
 18 striking out “5 per centum” and inserting in lieu thereof
 19 “8 per centum”.

20 (b) **INCREASE IN TAX ON PASSENGER AUTOMOBILES**
 21 **AND MOTORCYCLES.**—Section 3403 (b) (tax on automo-
 22 bile chassis and bodies, etc.) is hereby amended to read as
 23 follows:

24 “(b) **OTHER CHASSIS AND BODIES, ETC.**—

25 “(1) Other automobile chassis and bodies, chassis

1 and bodies for trailers and semi-trailers (other than
 2 house trailers) suitable for use in connection with pas-
 3 senger automobiles, and motorcycles (including in each
 4 case parts or accessories therefor sold on or in connection
 5 therewith or with the sale thereof), except tractors, 10
 6 per centum.

7 “(2) Chassis and bodies for house trailers (includ-
 8 ing in each case parts or accessories therefor sold on or
 9 in connection therewith or with the sale thereof), 7
 10 per centum.

11 A sale of an automobile, trailer, or semi-trailer shall, for
 12 the purposes of this subsection, be considered to be a sale of
 13 the chassis and of the body.”

14 (c) INCREASE IN TAX ON PARTS OR ACCESSORIES.—
 15 Section 3403 (c) (tax on parts or accessories for automomobiles, etc.) is hereby amended by striking out “5 per centum”
 16 and inserting in lieu thereof “8 per centum”.

18 (d) REBUILT PARTS OR ACCESSORIES.—Section 3403
 19 (c) (tax on parts or accessories) is hereby amended by
 20 adding at the end thereof the following: “In determining
 21 the sale price of a rebuilt automobile part or accessory there
 22 shall be excluded from the price, in accordance with regula-
 23 tions prescribed by the Secretary, the value of a like part or
 24 accessory accepted in exchange.”

25 (e) TECHNICAL AMENDMENT.—Section 3403 (e)

1 (relating to certain credits against the tax imposed by section
2 3403) is hereby amended by striking out “in the case of an
3 article taxable under subsection (a), 5 per centum, and in
4 the case of an article taxable under subsection (b), 7 per
5 centum” and inserting in lieu thereof “in the case of an article
6 taxable under subsection (a), 8 per centum, in the case of
7 an article taxable under subsection (b) (1), 10 per centum,
8 and in the case of an article taxable under subsection (b)
9 (2), 7 per centum”.

10 (f) PARTS OR ACCESSORIES FOR FARM EQUIP-
11 MENT.—Section 3443 (a) (3) (A) is hereby amended
12 by striking out the period at the end of clause (v) and in-
13 serting in lieu thereof a semicolon, and by inserting after
14 clause (v) the following:

15 “(vi) in the case of articles taxable under
16 section 3403 (c) (other than spark plugs,
17 storage batteries, leaf springs, coils, timers, and
18 tire chains), used or resold for use as repair
19 or replacement parts or accessories for farm
20 equipment (other than equipment taxable
21 under subsection (a) or (b) of section
22 3403) ;”.

23 (g) EFFECTIVE DATE OF SUBSECTION (f).—The
24 amendment made by subsection (f) shall be effective with
25 respect to articles purchased (by the user thereof) on or

1 after the first day of the first month which begins more
2 than ten days after the date of the enactment of this Act.

3 (h) REMOVAL OF TAX ON TIRES FOR TOYS, ETC.—

4 Paragraph (1) of section 3400 (a) (relating to tax on
5 tires) is hereby amended by adding at the end thereof the
6 following: “The tax imposed by this paragraph shall not
7 apply to (A) tires which are not more than 20 inches in
8 diameter and not more than one and three-fourths inches
9 in cross-section, if such tires are of all-rubber construction
10 (whether hollow center or solid) without fabric or metal
11 reinforcement, or (B) tires of extruded tiring with internal
12 wire fastening agent.”

13 SEC. 482. NAVIGATION RECEIVERS SOLD TO THE UNITED
14 STATES.

15 (a) EXEMPTION ON SALES TO UNITED STATES OF
16 CERTAIN RADIO SETS.—Section 3404 (a) (relating to man-
17 ufacturers’ excise tax on radio receiving sets, etc.) is hereby
18 amended by adding at the end thereof the following new sen-
19 tence: “No tax shall be imposed under this subsection with
20 respect to the sale to the United States for its exclusive use
21 of a communication, detection, or navigation receiver of the
22 type used in commercial, military, or marine installations.”

23 (b) TAX-FREE SALES OF RADIO PARTS.—Section 3404

24 (b) (relating to manufacturers’ excise tax on component

1 parts of radio receiving sets, etc.) is hereby amended by add-
2 ing at the end thereof the following new sentence: "Under
3 regulations prescribed by the Secretary, no tax shall be im-
4 posed under this subsection with respect to the sale of any
5 article for use by the vendee as material in the manufacture or
6 production of, or as a component part of, communication,
7 detection, or navigation receivers of the type used in com-
8 mercial, military, or marine installations if such receivers
9 are to be sold by the vendee to the United States for its
10 exclusive use. If any article sold tax-free to such vendee
11 is not so used by him, or being so used the receiver is not so
12 sold, the vendee shall be considered as the manufacturer or
13 producer of such article."

14 (c) REFUND IN CASE OF USE OF PARTS.—Section
15 3443 (a) (1) (relating to credits and refunds) is hereby
16 amended to read as follows:

17 " (1) to a manufacturer or producer, in the amount
18 of any tax under this chapter which has been paid
19 with respect to the sale of—

20 " (A) any article (other than a tire, inner tube,
21 or automobile radio or television receiving set tax-
22 able under section 3404) purchased by him and
23 used by him as material in the manufacture or
24 production of, or as a component part of, an article

1 with respect to which tax under this chapter has
2 been paid, or which has been sold free of tax by
3 virtue of section 3442, relating to tax-free sales;

4 “(B) any article described in section 3404 (b)
5 purchased by him and used by him as material in
6 the manufacture or production of, or as a com-
7 ponent part of, communication, detection, or navi-
8 gation receivers of the type used in commercial,
9 military, or marine installations if such receivers
10 have been sold by him to the United States for its
11 exclusive use.”

12 (d) REFUND IN CASE OF RESALE TO UNITED
13 STATES.—Section 3443 (a) (3) (A) is hereby amended
14 by adding at the end thereof the following:

15 “(vii) in the case of a communication,
16 detection, or navigation receiver of the type
17 used in commercial, military, or marine installa-
18 tions, resold to the United States for its ex-
19 clusive use.”

20 (e) USE BY MANUFACTURER OF TAXABLE PARTS.—
21 Section 3444 (b) (relating to tax on use by manufacturer of
22 taxable articles) is hereby amended by adding at the end
23 thereof the following: “This section shall not apply with
24 respect to the use by the manufacturer, producer, or importer
25 of articles described in section 3404 (b) if such articles are

1 used by him as material in the manufacture or production of,
 2 or as a component part of, communication, detection, or
 3 navigation receivers of the type used in commercial, military,
 4 or marine installations if such receivers are to be sold to the
 5 United States for its exclusive use.”

6 (f) EFFECTIVE DATES.—The amendments made by
 7 subsections (a) and (b) shall take effect as provided in
 8 section 489. The amendments made by subsections (c) and
 9 (e) shall be applicable with respect to articles used in
 10 receivers sold to the United States on or after the first day of
 11 the first month which begins more than ten days after the
 12 date of the enactment of this Act, and the amendment made
 13 by subsection (d) shall be applicable with respect to
 14 articles resold to the United States on or after such
 15 first day.

16 **SEC. 483. REPEAL OF TAX ON CERTAIN SPORTING GOODS;**
 17 **INCREASE IN TAX ON REMAINING SPORTING**
 18 **GOODS.**

19 Section 3406 (a) (1) (relating to manufacturers’ ex-
 20 cise tax on sporting goods) is hereby amended to read as
 21 follows:

22 “(1) SPORTING GOODS.—Badminton nets; badminton
 23 rackets (measuring 22 inches over-all or more in length) ;
 24 badminton racket frames (measuring 22 inches over-all or
 25 more in length) ; badminton racket string; badminton shuttle-

1 cocks; badminton standards; baseballs; baseball bats (meas-
 2 uring 26 inches or more in length) ; baseball body protectors
 3 and shin guards; baseball gloves and mitts; baseball masks;
 4 billiard and pool tables (measuring 45 inches over-all or
 5 more in length) ; billiard and pool balls and cues for such
 6 tables; bowling balls and pins; clay pigeons and traps for
 7 throwing clay pigeons; croquet balls and mallets; curling
 8 stones; deck tennis rings, nets, and posts; fishing rods, creels,
 9 reels, and artificial lures, baits, and flies; golf bags (measur-
 10 ing 26 inches or more in length) ; golf balls; golf clubs
 11 (measuring 30 inches or more in length) ; polo balls; polo
 12 mallets; skis; ski poles; snow shoes; squash balls; squash
 13 rackets (measuring 22 inches over-all or more in length) ;
 14 squash racket frames (measuring 22 inches over-all or more
 15 in length) ; squash racket string; table tennis tables, balls,
 16 nets, and paddles; tennis balls; tennis nets; tennis rackets
 17 (measuring 22 inches over-all or more in length) ; tennis
 18 racket frames (measuring 22 inches over-all or more in
 19 length) ; tennis racket string; 15 per centum.”

20 **SEC. 484. ADDITION OF CERTAIN ITEMS TO THE TAX ON**
 21 **ELECTRIC, GAS, AND OIL APPLIANCES; RE-**
 22 **MOVAL OF TAX ON ELECTRIC HEATING PADS.**

23 Section 3406 (a) (3) (relating to manufacturers’
 24 excise tax on electric, gas, and oil appliances) is hereby
 25 amended (1) by striking out “electric heating pads and

1 blankets” and inserting in lieu thereof “electric blankets,
2 sheets, and spreads”, and (2) by inserting after “juicers;”
3 the following: “and the following appliances of the house-
4 hold type: electric belt-driven fans; electric or gas
5 clothes driers; electric door chimes; electric dehumidi-
6 fiers; electric dishwashers; electric floor polishers and
7 waxers; electric food choppers and grinders; electric hedge
8 trimmers; electric ice cream freezers; electric mangles;
9 electric motion or still picture projectors; electric pants
10 pressers; electric shavers; and power lawn mowers;”.

11 **SEC. 485. ADJUSTMENTS OF TAX RATES ON PHOTOGRAPHIC**
12 **APPARATUS AND FILM; REPEAL OF TAX ON**
13 **CERTAIN ITEMS.**

14 (a) **ITEMS SUBJECT TO TAX.**—Section 3406 (a) (4)
15 (relating to the manufacturers’ excise tax on photographic
16 apparatus) is hereby amended to read as follows:

17 “(4) **PHOTOGRAPHIC APPARATUS.**—Cameras and
18 camera lenses, and unexposed photographic film in rolls
19 (including motion picture film), 20 per centum. The
20 tax imposed under this paragraph shall not apply to
21 X-ray cameras, to cameras weighing more than four
22 pounds exclusive of lens and accessories, to still camera
23 lenses having a focal length of more than one hundred
24 and twenty millimeters, to motion picture camera lenses
25 having a focal length of more than thirty millimeters, to

1 X-ray film, to film more than one hundred and fifty
2 feet in length, or to film more than twenty-five feet
3 in length and more than thirty millimeters in width.
4 Any person who acquires unexposed photographic film
5 not subject to tax under this paragraph and sells such
6 unexposed film in form and dimensions subject to tax
7 hereunder (or in connection with a sale cuts such film
8 to form and dimensions subject to tax hereunder) shall
9 for the purposes of this subsection be considered the
10 manufacturer of the film so sold by him.”

11 (b) FLOOR STOCKS REFUNDS ON BULBS.—

12 (1) With respect to any photo-flash or other bulb
13 upon which the tax imposed under section 3406 (a)
14 (4) of the Internal Revenue Code has been paid, and
15 which on the effective date specified in section 489 of
16 this Act is held by any person and intended for sale, or
17 for use in the manufacture or production of any article
18 intended for sale, there shall be credited or refunded to
19 the manufacturer or producer of such bulb (without
20 interest), subject to such regulations as may be pre-
21 scribed by the Secretary, an amount equal to so much
22 of the tax so paid as has been paid by such manufacturer
23 or producer to such person as reimbursement for the
24 elimination on such effective date of the tax on such bulb,

1 if claim for such credit or refund is filed with the Secre-
2 tary prior to the expiration of three months after such
3 effective date. No credit or refund shall be allowable
4 under this paragraph for any bulb held by any person
5 for sale which was purchased by such person as a com-
6 ponent part of any other article.

7 (2) No person shall be entitled to credit or refund
8 under paragraph (1) unless he has in his possession such
9 evidence of the inventories with respect to which he has
10 made the reimbursements described in paragraph (1) as
11 the regulations under paragraph (1) shall prescribe.

12 (3) All provisions of law, including penalties, ap-
13 plicable with respect to the tax imposed under section
14 3406 (a) (4) of the Internal Revenue Code shall,
15 insofar as applicable and not inconsistent with this sub-
16 section, be applicable in respect of the credits and refunds
17 provided for in this subsection to the same extent as if
18 such credits or refunds constituted credits or refunds of
19 such taxes.

20 **SEC. 486. IMPOSITION OF TAX ON MECHANICAL PENCILS**
21 **AND FOUNTAIN AND BALL POINT PENS.**

22 Chapter 29 (relating to manufacturers' excise and im-
23 port taxes) is hereby amended by adding after section 3407
24 the following new section:

1 **“SEC. 3408. TAX ON MECHANICAL PENCILS AND FOUNTAIN**
2 **AND BALL POINT PENS.**

3 “(a) IMPOSITION OF TAX.—There shall be imposed
4 on the following articles, sold by the manufacturer, producer,
5 or importer, a tax equal to 20 per centum of the price for
6 which so sold: Mechanical pencils, fountain pens, and ball
7 point pens.

8 “(b) EXEMPTION IF ARTICLE TAXABLE AS JEW-
9 ELRY.—No tax shall be imposed under this section on any
10 article taxable under section 2400 (relating to jewelry tax).”

11 **SEC. 487. REPEAL OF TAX ON ELECTRICAL ENERGY.**

12 (a) REPEAL OF TAX.—Section 3411 (relating to tax
13 on electrical energy for domestic or commercial consump-
14 tion), and sections 3441 (d), 3444 (b), and 3447 (c)
15 (related provisions), are hereby repealed.

16 (b) EFFECTIVE DATE.—

17 (1) Except as provided in paragraph (2), the
18 provisions of subsection (a) shall apply to electrical
19 energy sold on or after the first day of the first month
20 which begins more than ten days after the date of the
21 enactment of this Act.

22 (2) In the case of electrical energy sold which is
23 billed to the customer for a period beginning before the
24 effective date specified in paragraph (1) and ending
25 on or after such date, the provisions of subsection (a)

shall apply to that portion of the amount billed for the electrical energy sold during such period which the number of days in such period on and after such effective date bears to the total number of days in such period. This section shall not apply to electrical energy sold before such effective date for which a bill was rendered prior to such date.

SEC. 488. TAX ON GASOLINE.

(a) **INCREASE IN RATE.**—Section 3412 (a) is hereby amended by striking out “1½ cents” and inserting in lieu thereof “2 cents”.

(b) **FLOOR STOCKS TAX.**—Section 3412 is hereby amended by adding at the end thereof the following new subsection:

“(f) **1951 FLOOR STOCKS TAX.**—On gasoline subject to tax under this section which, on the effective date of section 488 (a) of the Revenue Act of 1951, is held and intended for sale, there shall be levied, assessed, collected, and paid a floor stocks tax at the rate of ½ cent per gallon. The tax shall not apply to gasoline in retail stocks held at the place where intended to be sold at retail, nor to gasoline held for sale by the manufacturer, producer, or importer thereof.”

SEC. 489. EFFECTIVE DATE OF PART VIII.

Except as otherwise expressly provided in this part, the amendments made by this part shall take effect on the

1 first day of the first month which begins more than 10 days
2 after the date of the enactment of this Act.

3 **Part IX—Miscellaneous Excise Tax Amendments**

4 **SEC. 491. REDUCTION OF TAX ON TELEGRAPH DISPATCHES.**

5 (a) **REDUCTION OF TAX.**—The first sentence of section
6 3465 (a) (1) (B) is hereby amended to read as follows:
7 “On the amount paid within the United States for each
8 telegraph, cable, or radio dispatch or message a tax equal
9 to 20 per centum of the amount so paid, except that in the
10 case of each international telegraph, cable, or radio dispatch
11 or message the rate shall be 10 per centum.”

12 (b) **CLERICAL AMENDMENT.**—The table contained in
13 section 1650 (relating to the war tax rates of certain miscel-
14 laneous taxes) is hereby amended by striking out the
15 following:

“3465 (a) (1) (B) (in- sofar as it relates to domestic telegraph, cable, and radio dis- patches).	Domestic Telegraph, Cable, or Radio Dispatches.	15 per centum.....	25 per centum.”
---	--	--------------------	-----------------

16 (c) **EFFECTIVE DATE.**—Subject to the provisions of
17 subsection (d), the amendments made by this section shall
18 apply with respect to amounts paid on or after the rate reduc-
19 tion date (as defined in subsection (e)) for services rendered
20 on or after such date.

21 (d) **AMOUNTS PAID PURSUANT TO BILLS REN-**
22 **DERED.**—The amendments made by this section shall not
23 apply with respect to amounts paid pursuant to bills rendered

1 prior to the rate reduction date. In the case of amounts paid
2 pursuant to bills rendered on or after the rate reduction date
3 for services for which no previous bill was rendered, the
4 amendments made by this section shall apply except with
5 respect to such services as were rendered more than 2
6 months before such date. In the case of services rendered
7 more than 2 months before such date the provisions of
8 sections 1650 and 3465 of the Internal Revenue Code in
9 effect at the time such services were rendered shall be
10 applicable to the amounts paid for such services.

11 (e) **RATE REDUCTION DATE.**—For the purposes of this
12 section the term “rate reduction date” means the first day
13 of the first month which begins more than 10 days after
14 the date of the enactment of this Act.

15 **SEC. 492. EXEMPTION OF FISHING TRIPS FROM TAX ON**
16 **TRANSPORTATION.**

17 (a) **EXEMPTION.**—Section 3469 (b) (relating to
18 exemption of certain trips from the tax on transportation of
19 persons) is hereby amended by striking out “or to amounts”
20 and inserting in lieu thereof “to amounts”, and by inserting
21 after the words “one month or less” the following “, or to
22 amounts paid for transportation by boat for the purpose of
23 fishing from such boat”.

24 (b) **EFFECTIVE DATE.**—The amendment made by sub-

1 section (a) shall apply to amounts paid on or after the first
2 day of the first month which begins more than 10 days after
3 the date of the enactment of this Act for transportation on
4 or after such first day.

5 **SEC. 493. TRANSPORTATION OF OIL BY WATER.**

6 (a) **IMPOSITION OF TAX.**—Chapter 30 (relating to
7 transportation and communications taxes) is hereby amended
8 by adding at the end thereof the following new subchapter:

9 **“SUBCHAPTER F—TRANSPORTATION OF OIL BY**
10 **WATER**

11 **“SEC. 3476. TRANSPORTATION OF OIL BY WATER.**

12 “(a) **TAX.**—There shall be imposed upon all transporta-
13 tion (other than transportation taxable under section 3475)
14 of crude petroleum and liquid products thereof by water,
15 from one point in the United States to another, a tax equal to
16 3 per centum of the fair charge for such transportation.

17 “(b) **FAIR CHARGE DEFINED.**—For the purposes of
18 this section, the fair charge for transportation shall be com-
19 puted on—

20 “(1) the basis of the charge for such transportation
21 made by persons performing like transportation for hire,
22 as determined by the Secretary, or

23 “(2) if no such charge exists, then on the basis
24 of a reasonable charge for such transportation, as deter-
25 mined by the Secretary.

1 “(c) EXEMPTION FROM TAX.—The tax imposed by
2 this section shall not apply to—

3 “(1) transportation within the premises of a pro-
4 ducing property, refinery, bulk plant, terminal, or gaso-
5 line plant;

6 “(2) transportation in a vessel of a product to be
7 used (without unloading) as fuel supplies, ship’s stores,
8 sea stores, or legitimate equipment, on such vessel;

9 “(3) transportation by and for the exclusive use of
10 the Government of the United States, or by and for the
11 exclusive use of any State, Territory, or political subdi-
12 vision thereof, or the District of Columbia; or

13 “(4) products transported by an individual for his
14 personal use and not for business purposes.

15 “(d) RETURN AND PAYMENT OF TAX.—The tax im-
16 posed by this section shall be paid by the person furnishing
17 the transportation subject to the tax. Every person liable for
18 the tax imposed under this section shall make returns and pay
19 such taxes to the collector for the district in which is located
20 his principal place of business or, if he has no principal place
21 of business in the United States, then to the collector at
22 Baltimore, Maryland. Such returns shall contain such infor-
23 mation and be made at such times and in such manner as the
24 Secretary by regulations may prescribe.”

25 (b) TECHNICAL AMENDMENT.—Section 3475 (a)

1 (relating to tax on transportation of property) is hereby
2 amended by adding at the end thereof the following new
3 sentence: "In the case of transportation of crude petroleum
4 and liquid products thereof by water from one point in the
5 United States to another, if (other than in the case of an
6 arm's length transaction) the amount paid for such trans-
7 portation is less than the fair charge therefor (as defined in
8 section 3476 (b)) the tax imposed by section 3476, and not
9 the tax imposed by this section, shall apply with respect to
10 such transportation."

11 (c) **EFFECTIVE DATE.**—The amendments made by this
12 section shall be applicable only with respect to transportation
13 which begins on or after the first day of the first month
14 which begins more than ten days after the date of the
15 enactment of this Act.

16 **SEC. 494. ARTICLES FROM FOREIGN TRADE ZONES.**

17 (a) **IMPORTED ARTICLES.**—Upon all articles specified
18 in section 2000 (c) (2), 2800 (a), 3030 (a), or 3150
19 (a) of the Internal Revenue Code on which the internal
20 revenue taxes imposed by law have been determined,
21 pursuant to section 3 of the Act of June 18, 1934, as
22 amended (U. S. C., title 19, sec. 81c), prior to the
23 effective date of the rates of tax imposed on such
24 articles by this Act, and which on or after such effective
25 date are brought from foreign trade zones into customs

1 territory of the United States, there shall be levied, assessed,
2 collected, and paid on such articles, in addition to the tax
3 so determined, an additional tax at rates equal to the in-
4 creases in rates of tax made applicable to such articles by
5 this Act. The tax imposed by this subsection shall be col-
6 lected, paid, and accounted for at the same time and in the
7 same manner as tax on such article is collected, paid, and
8 accounted for when brought from the foreign trade zone
9 into the customs territory.

10 (b) PREVIOUSLY TAXPAID ARTICLES.—Upon all tax-
11 paid articles specified in section 2000 (c) (2), 2800 (a),
12 3030 (a), or 3150 (a) of the Internal Revenue Code
13 which have been taken into foreign trade zones from
14 the customs territory of the United States and placed
15 under the supervision of the collector of customs, pur-
16 suant to the second proviso of section 3 of the Act
17 of June 18, 1934, as amended (U. S. C., title 19, sec.
18 81c), prior to the effective date of the rates of tax imposed
19 on such articles by this Act, and which on or after such
20 effective date are (without loss of identity) returned from
21 foreign trade zones to customs territory of the United States,
22 there shall be levied, assessed, collected, and paid on such
23 articles an additional tax at rates equal to the increases in
24 rates of tax made applicable to such articles by this Act.

1 The tax imposed by this subsection on any article shall be
2 collected, paid, and accounted for at the same time and in
3 the same manner as if such article had been taken into the
4 foreign trade zone free of tax.

5 **TITLE V—MISCELLANEOUS PROVISIONS**
6 **AND AMENDMENTS**

7 **SEC. 501. EXEMPTION OF CERTAIN ORGANIZATIONS FROM**
8 **INCOME TAX FOR PRIOR TAXABLE YEARS.**

9 Section 302 of the Revenue Act of 1950 (relating to
10 exemption of certain organizations for past years) is amended
11 by adding at the end thereof the following new subsection:

12 “(d) PROFITS INURING TO THE BENEFIT OF CERTAIN
13 EDUCATIONAL ORGANIZATIONS.—For any taxable year
14 beginning prior to January 1, 1951, an organization operated
15 for the primary purpose of carrying on a trade or business
16 for profit, no part of the net earnings of which inures to the
17 benefit of any private shareholder or individual and all of the
18 net earnings of which inure to the benefit of an educational
19 organization which normally maintains a regular faculty and
20 curriculum and normally has a regularly organized body of
21 pupils or students in attendance at the place where its educa-
22 tional activities are regularly carried on, shall not be denied
23 exemption from taxation under section 101 of the Internal
24 Revenue Code on the ground that it is carrying on a trade or
25 business for profit.”

1 SEC. 502. EXCESS PROFITS CREDIT BASED ON INCOME.

2 (a) PERCENTAGE OF AVERAGE BASE PERIOD NET
3 INCOME TAKEN INTO ACCOUNT.—

4 (1) IN GENERAL.—Paragraph (1) (A), and
5 paragraph (2), of section 435 (a) (relating to excess
6 profits credit based on income) are each amended by
7 striking out “85 per centum” and inserting in lieu
8 thereof “75 per centum”.

9 (2) TAXABLE YEARS BEGINNING BEFORE JANUARY
10 1, 1951, AND ENDING AFTER DECEMBER 31, 1950.—
11 Section 435 (a) is hereby amended by adding at the end
12 thereof the following new paragraph:

13 “(4) TAXABLE YEARS BEGINNING IN 1950 AND
14 ENDING IN 1951.—In the case of a taxable year be-
15 ginning before January 1, 1951, and ending after
16 December 31, 1950, there shall be used, for the pur-
17 poses of paragraph (1) (A) and paragraph (2), in
18 lieu of 85 per centum of the average base period net
19 income, an amount equal to the sum of—

20 “(A) that portion of an amount equal to 85
21 per centum of the average base period net income
22 which the number of days in such taxable year prior
23 to January 1, 1950, bears to the total number of
24 days in such taxable year, plus

25 “(B) that portion of an amount equal to 75

1 per centum of the average base period net income
2 which the number of days in such taxable year after
3 December 31, 1950, bears to the total number of
4 days in such taxable year.”

5 (b) EFFECTIVE DATE.—The amendments made by sub-
6 section (a) shall be applicable only with respect to taxable
7 years ending after December 31, 1950.

8 **SEC. 503. ESTATE AND GIFT TAX TREATMENT OF UNITED**
9 **STATES BONDS HELD BY CERTAIN NONRESI-**
10 **DENT ALIENS.**

11 (a) ESTATE TAX.—Effective with respect to estates of
12 decedents dying after February 10, 1939, section 861 (re-
13 lating to the computation of the net estate of a decedent
14 nonresident not a citizen of the United States) is hereby
15 amended by adding at the end thereof the following new
16 subsection:

17 “(c) UNITED STATES BONDS.—For the purposes of
18 subsection (a), the value of the gross estate (determined
19 as provided in section 811) of a decedent who was not
20 engaged in business in the United States at the time of his
21 death—

22 “(1) shall not include obligations issued by the
23 United States prior to March 1, 1941; and

24 “(2) shall include obligations issued by the United
25 States on or after March 1, 1941, but only if the dece-

1 dent died after the date of the enactment of the Revenue
2 Act of 1951.”

3 (b) GIFT TAX.—Effective with respect to gifts made
4 after the date of enactment of this Act, section 1000 (b)
5 (relating to application of gift tax) is hereby amended by
6 adding at the end thereof the following: “In the case of such
7 a nonresident who is not engaged in business in the United
8 States at the time of a transfer of obligations issued by the
9 United States, the tax shall apply in respect of any such
10 obligations only if issued on or after March 1, 1941.”

11 **SEC. 504. REORGANIZATION PLAN NUMBERED 26 OF 1950.**

12 The provisions of Reorganization Plan Numbered 26
13 of 1950 shall be applicable to all functions vested by this
14 Act in any officer, employee, or agency of the Department
15 of the Treasury.

82^d CONGRESS
1ST SESSION

H. R. 4473

[Report No. 586]

A BILL

To provide revenue, and for other purposes.

By Mr. DOUGHTON

JUNE 15, 1951

Referred to the Committee on Ways and Means

JUNE 18, 1951

Committed to the Committee of the Whole House on
the State of the Union and ordered to be printed

about is a necessity in Los Angeles, then why should it not be built under the supervision, and with the help, of the State or the county of Los Angeles. The Federal Government is \$257,000,000,000 in debt, and we have had a deficit on our operating expenses every year, except the 2 years of the Eightieth Congress, since 1930. If the members of your Board can spend more money every year than they take in, and not suffer by it, then the Federal Government can do it, and I wish to heaven you would send me pronto a diagram showing how it is done. If your members cannot do it, then the Federal Government cannot do it either, without eventual damage. The blunt fact is that we have reached the point of damage. This is no longer an academic matter. The time for action is now and the emergency is here.

Please give my regards to the members of your Board; I probably know some of them, and accept my appreciation for an increasing interest in a genuinely serious problem. Sincerely yours,

JOHN PHILLIPS,
Member of Congress.

I had received somewhat similar letters or wires, from veterans organizations, as follows: From the Los Angeles County Council, Marine Corps League, signed by Mr. Harold Starlin as chairman of the housing committee, dated June 5; from the Los Angeles County Council of the Disabled American Veterans, to which organization I myself belong, signed by Mr. Louis B. Harrison as housing chairman, dated June 5. To both of these I sent copies of the Tryon letter. In the meantime, I think I should say, Mr. Speaker, one of my colleagues in the California delegation had mimeographed copies made of this letter and was not only sending them out in reply to similar letters from his own district, but was supplying them to other members of the delegation for similar use. I was now answering my mail on the subject by getting mimeographed copies of my own letter from my colleague's office.

At the other end, the public-housing termites had been busy too. Wires from labor unions were coming in. This has always intrigued me. Why does a union member want to go all-out for public housing, paid for by Federal taxpayers? Union members do the work in either case, but in all cases, Federal, State, or local, union members pay for it through taxes and they pay more when the Federal Government charges its customary house percentage for supervision and political interest. Only in privately built housing is the taxpayer relieved of this take. State or local housing can be cheaper and better than Federally built public housing. We just don't do things as cheaply as they are done under local supervision, that is all.

Dated May 29, I received a letter from the Southern California Pipe Trades District Council, No. 16, signed by Mr. Walter A. Bertelsen as president, "representing 10,000 journeymen," and on the same day a wire from Mr. Ray Waters, secretary of Laborers Local No. 300, which said that the action of the House meant the end of slum clearance, with which I suggest it had little or nothing to do. On May 30, Mr. E. J. Brown, business

manager of Plumbers Local No. 70 wired me his concern, and on June 6 Mr. Robert L. Spears, secretary-treasurer of CIO San Diego Industrial Union Council, sent me a somewhat similar wire, and on June 9, Mr. Patrick Sosso, president of Local 923, UAW-CIO, sent me a longer wire urging me to "exercise to the fullest extent my prestige and influence" to restore the larger figure in the bill, a request, I may add, which would compliment any Member of the House of Representatives.

There may have been other, but these are at hand as I put together the material for this statement. I will take my reply to Mr. Spears as a sample of my replies:

JUNE 8, 1951.

MY DEAR MR. SPEARS: It is not at all clear to me why a reduction of any number of units in the independent offices appropriation bill is a severe blow to all labor. The houses will have to be built and labor will build them, and on the record of our experiences of the last few years, a whole lot more will be built as soon as we get away from the idea that only the Government can build houses and that only the Government has any money to spend. The Federal Government happens to be broke while the State government is justifiably proud of having a balance of \$50,000,000, and I have not heard of San Diego County being broke.

While the Federal agency has fooled around building 35,000 units, private builders have built several million units. It looks to me as if labor should put its money on the nose of private industry.

I have written letters on this same subject to several veterans' organization in Los Angeles, and to save myself time in replying to your wire of June 5, I am enclosing a mimeographed copy (which another Member of Congress actually had made of my letter) of one of those letters. Some of the figures may startle you.

Cordially yours,

JOHN PHILLIPS,
Member of Congress.

Now, Mr. Speaker, the issue is clear cut. The other body, in its committee, has put back the figure of 50,000 as the number of units which may be started in the coming fiscal year. Moreover, I understand the other body, in the committee at least—there has not yet been floor action—has changed the wording and has removed the necessary restrictions on the public housing authorities, preventing them from making plans and promises, for years ahead, which in the past have misled sincere groups in local areas to think there is some commitment on the part of the Government of the United States.

It is now up to the House, in conference and on the floor. My position is clearly stated. How many others are there in this House who will take the necessary courageous action to prevent a further depreciation of the dollar, who will act—not merely talk—against the free spending of Federal money which is one of the prime causes of the present inflationary trend? How many will take action to stop in its tracks a movement which openly on the pages of history has been one of the first steps to socialistic control of any nation, and the eventual destruction of that nation as

a free people? This is only one small item, but it is an opportunity for action, not just for wishful thinking. I have confidence in the House of Representatives.

I almost forgot to say, Mr. Speaker, that while these relatively few letters and telegrams were coming in, urging me to support an increase of the figure limiting public housing in this bill, I had many times that number of letters commending the committee and the House of Representatives for cutting it down to 5,000. I am interested today, in this statement, only in the wires and letters asking for the increase of the figure, and particularly in the evidences of cohesive propaganda on that side.

Summary of Provisions of Revenue Bill
of 1951 as Prepared by the Staff of the
Committee on Ways and Means

EXTENSION OF REMARKS
OF

HON. FRED L. CRAWFORD
OF MICHIGAN

IN THE HOUSE OF REPRESENTATIVES

Monday, June 18, 1951

Mr. CRAWFORD. Mr. Speaker, under leave to extend my remarks in the RECORD, I include the following:

Summary of the provisions of H. R. 4473
(revenue bill of 1951), as prepared by the
staff of the Committee on Ways and Means
ESTIMATED EFFECT ON REVENUES IN A FULL YEAR
OF OPERATION ¹

	Amount (millions)
I. INCOME TAXES	
(A) CORPORATIONS	
Rates: Increased normal tax rate from 25 to 30 percent and over-all ceiling on normal tax, surtax and excess profits tax from 62 to 70 percent, effective Jan. 1, 1951. Reduced the average earnings credit for excess profits tax from 85 to 75 percent of the earnings in the 3 best years in the 4-year period, 1946-49, effective Jan. 1, 1951.	\$ 2,817
Capital gains: Increased tax liability on net capital gains by 12½ percent, effective Sept. 1, 1951. Increase for calendar year 1951 is 4 percent.	38
Total from corporations.....	2,855
(B) INDIVIDUALS	
Imposed a 12½ percent increase in income and capital gains tax liability, to be known as a defense tax; raised the maximum effective rate limitation from 87 to 90 percent and set the marginal rate of tax on surtax net income of \$80,000 and over at 94½ percent, effective Sept. 1, 1951. Increase for calendar year 1951 is 4 percent.	2,903
Gave single persons who are heads of households one-half of the advantage that married taxpayers have over single persons from income splitting. Effective Sept. 1, 1951.	-56
Total from individuals.....	2,847

¹ Estimated effect on revenues prepared by the staff of the Joint Committee on Internal Revenue Taxation.
² The estimate breaks down as follows: 5-percent increase in the normal tax rate and over-all ceiling, \$2,085; decreasing base period earnings credit from 85 to 75 percent and increasing the ceiling from 67 to 70 percent, \$732; total, \$2,817.

Summary of the provisions of H. R. 4473 (revenue bill of 1951), as prepared by the staff of the Committee on Ways and Means—Continued

	Amount (millions)
II. EXCISE TAXES	
Generally the effective date for changes is the first day of the first month which begins more than 10 days after date of enactment.	
(A) ADMISSIONS	
(1) Exempted benefit performances where proceeds inure to religious, educational (including nonprofit opera companies) or charitable institutions; nonprofit community-supported symphony orchestras and cooperative or community center motion picture theaters; nonprofit agricultural fairs; National Guard, Reserve officers' and veterans' organizations; police and fire departments, and funds set up for the benefit of their members or dependents; and exempted swimming pools and other places providing facilities for physical exercise if operated by governmental units.	-16
(2) The following admissions would not be exempted: Wrestling or boxing matches; carnivals, rodeos or circuses where professionals participate for compensation; or athletic contests unless the proceeds inure exclusively to the benefit of elementary or secondary schools.	
(3) Exempted free admissions, and in the case of admissions at reduced rates applied the tax to the amount actually paid.	-6
(B) APPLIANCES—ELECTRIC, GAS, AND OIL	
Made no change in rates, but broadened the base to include power lawn mowers, electric or gas clothes driers, and the following electric items of the household type: Belt-driven fans, dehumidifiers, dishwashers, doorbell chimes, food choppers and meat grinders, hedge clippers, ice-cream freezers, sheets and spreads, shavers, floor polishers and waxers, pants pressers, mangles, and motion or still picture projectors.	
Exempted electric heating pads.	-1
(C) AUTOMOBILES, MOTORCYCLES	
Increased from 7 to 10 percent, but exempted house trailers from the 3-percent increase.	196
(D) AUTOMOTIVE PARTS AND ACCESSORIES	
(1) New: Increased from 5 to 8 percent.	56
(2) Rebuilt: Eliminated from the tax base the fair market value of the old part traded in on rebuilt part.	(3)
(3) Farm equipment: Provided tax refund or credit where used on such equipment. Spark plugs, storage batteries, leaf springs, coils, timers, and tire chains not included in provision.	(3)
(E) BEER	
Increased from \$8 to \$9 per barrel. Imposed a floor stocks tax of \$1 per barrel on persons holding for sale when increase becomes effective. (For increase in occupational tax see "Distilled spirits".)	468
(F) BOWLING ALLEYS AND BILLIARD AND POOL TABLES	
Increased the tax per alley or table from \$20 to \$25 per year.	1
(G) CABARETS	
Exempted ballrooms and dance halls where serving of foods, etc., is incidental to furnishing music and dancing privileges.	(4)
(H) CIGARETTE, CIGAR, AND PIPE LIGHTERS	
Imposed 20 percent retail tax by including in base of jewelry tax.	2
(I) CIGARETTES	
Increased from 7 to 8 cents per package (\$3.50 to \$4.50 per thousand). Imposed 1 cent per package floor stocks tax on persons holding for sale on effective date of increase.	177
Footnotes at end of table.	

Summary of the provisions of H. R. 4473 (revenue bill of 1951), as prepared by the staff of the Committee on Ways and Means—Continued

	Amount (millions)
II. EXCISE TAXES—Continued	
(G) COIN-OPERATED GAMING DEVICES	
Increased annual occupational tax from \$150 to \$250.	\$7
(K) COMMUNICATIONS	
Domestic telegraph, radio, and cable services: Reduced from 25 to 20 percent.	-8
(L) DIESEL FUEL	
Imposed a 2-cents per gallon tax where sold to, or used by, operators of Diesel-powered highway vehicles.	10
(M) DISTILLED SPIRITS	
(1) Tax: Increased from \$9 to \$10.50 per proof gallon and increased draw-back where used in foods, medicines, etc., from \$6 to \$9.50 per gallon (decreases net tax from \$3 to \$1). Imposed a floor stocks tax of \$1.50 per gallon on persons holding for sale or use in articles intended for sale on date increase becomes effective.	168
(2) Annual occupational tax: Increased for retail liquor dealers from \$27.50 to \$50; wholesale liquor dealers from \$110 to \$200; and wholesale malt liquor dealers from \$55 to \$100.	8
(MM) ELECTRICAL ENERGY	
Repealed tax entirely.	-104
(N) FOUNTAIN AND BALL-POINT PENS AND MECHANICAL PENCILS	
Imposed 20 percent manufacturers' tax.	24
(O) GASOLINE	
Increased from 1½ to 2 cents per gallon and imposed a floor-stocks tax of ½ cent per gallon on wholesalers' supplies on date of increase.	210
(P) PHOTOGRAPHIC APPARATUS AND EQUIPMENT	
Established a flat rate of tax of 20 percent in lieu of the present 25 percent rate on apparatus and equipment and 15 percent on films, and exempted "business cost" items from the tax. Provided floor-stocks refund on photoflash bulbs to persons holding for sale on effective date.	-23
(Q) RADIOS, ETC.	
Communication, detection, and navigation receivers: Exempted from tax type used in commercial, military, or marine installations when sold to the United States for its exclusive use.	(3)
(R) SPORTING GOODS	
Increased from 10 to 15 percent but exempted from tax items primarily used in schools and by children, except baseballs and baseball equipment.	68
(S) TIRES FOR TOYS, LAWN MOWERS, ETC.	
Exempted from 5 cents per pound tax where tires are not more than 20 inches in diameter and tires with internal wire fasteners.	-1
(T) TOILET PREPARATIONS	
Exempted from 20-percent retail tax baby oils, powders, and lotions, and toilet preparations used in barber and beauty shops.	-7
(U) TRANSPORTATION	
(1) Persons: Exempted fishing boat trips from tax on transportation of persons.	(3)
(2) Property: Extended the base to include transportation of oil by barge or tanker by shippers who transport their own oil.	
Footnotes at end of table.	

Summary of the provisions of H. R. 4473 (revenue bill of 1951), as prepared by the staff of the Committee on Ways and Means—Continued

	Amount (millions)
II. EXCISE TAXES—Continued	
(V) TRUCKS, TRUCK TRAILERS, AND BUSES	
Increased from 5 to 8 percent.	\$61
(W) WAGERING	
Imposed a 10-percent tax on that part of the gross receipts of persons from the business of taking wagers on which they assume the risk of profit or loss, from operation of wagering pools, and from lotteries, including numbers, policy, and similar types of wagering, and imposed an occupational tax of \$50 per year on persons accepting wagers or operating a handbook or lottery, with penalties.	400
(X) WINE	
Increased present taxes on the average about 12½ percent. Imposed floor stocks tax on persons holding for sale or use in articles intended for sale on date increase becomes effective.	(8)
Total from excise taxes.	1,252
III. CAPITAL GAINS TAX	
(A) RATES	
Applied the 12½-percent increase in individual income tax liability to the alternative tax on capital gains of individuals and corporations.	(3)
(B) RESIDENCES (INCLUDING COOPERATIVE APARTMENTS)	
Recognized the gain on sale of residence only to the extent the proceeds exceed the cost of a new residence purchased within 1 year before or after sale of the old residence and gave the new residence the same basis as the old residence. Effective Jan. 1, 1951.	-112
(C) LIVESTOCK	
Extended capital gain treatment to livestock held by taxpayers for draft, breeding or dairy purposes for 12 months or more, effective Jan. 1, 1951.	-15
(D) COAL ROYALTIES	
Treated as capital gain instead of ordinary income. Effective Jan. 1, 1951.	-12
IV. MISCELLANEOUS	
(A) DEVELOPMENT EXPENDITURES OF MINES	
Treated expenditures incurred in the development of mines, after discovery of commercial quantities, as deferred expenses deductible ratably over the period mineral benefited is sold, effective Jan. 1, 1951.	-20
(B) EDUCATIONAL INSTITUTIONS	
Exempted income derived from unrelated active business of feeder corporations for years prior to 1951. (Such income was made taxable by the Revenue Act of 1950 for 1951 and following years.)	(10)
(C) FAMILY PARTNERSHIPS	
Recognized as a partner a person owning a capital interest in a partnership in which capital is a material income-producing factor whether or not such interest is derived by purchase or gift. Distributive shares for tax purposes would be determined after allowance of reasonable compensation for services rendered the partnership, but would not be diminished because of absence due to military service. Effective Jan. 1, 1951.	(11)
(D) INSURANCE COMPANIES	
Continued for 1951 the stopgap legislation adopted in the Revenue Act of 1950 for the taxation of life-insurance companies (instructed the staffs to continue their studies of permanent legislation for taxation of life-insurance companies and to study the taxation of stock and mutual fire and casualty insurance companies).	58
Footnotes at end of table.	

Summary of the provisions of H. R. 4473 (revenue bill of 1951), as prepared by the staff of the Committee on Ways and Means—Continued

	Amount (millions)
IV. MISCELLANEOUS—Continued	
(E) LOOPHOLES	
(1) Closely held corporations: Provided that depreciable assets sold by stockholders to the corporation be considered non-capital assets and that gains from such sales be treated as ordinary income. Effective for taxable years ending after Apr. 30, 1951, but will apply only to sales or exchanges made after May 3, 1951.	
(2) Collapsible corporations: Included in this term a corporation which is organized to convert profits from sales of inventory and stock in trade into capital gains. Effective Jan. 1, 1951.	
(3) Corporation split-ups: Permitted only 1 surtax exemption and only 1 minimum excess profits tax credit to members of a controlled group of corporations (companies of common ownership of 95 percent or more of the voting power of the corporate stock). Effective Jan. 1, 1951.	
(4) Dealers in securities: Required to clearly earmark securities upon purchase or acquisition as to whether or not they are held for investment or sale. Transfers from one account to the other not recognized for tax purposes. Securities would be considered as being in inventory unless specifically earmarked for investment. Effective for sales or exchanges of securities made after expiration of 30th day after date of enactment.	
(5) Gains and losses: Long-term losses to offset short-term gains in full, and long-term gains to offset short-term losses before reducing the long-term gains or losses by the 50-percent limitation under present law. Effective for taxable years beginning on or after date of enactment.	
(6) Nonresident aliens: Included in the taxable estate of nonresident aliens United States Government bonds issued on or after Mar. 1, 1941, where decedent dies after date of enactment and such aliens are not engaged in trade or business in the United States and the bonds are physically present in the United States. This decision also imposes a gift tax on such aliens on gift of bonds issued after Mar. 1, 1941.	
Total from closing loopholes.....	\$88
(F) PERCENTAGE DEPLETION	
Effective Jan. 1, 1951.	
Added following at rate of 5 percent: Sand, gravel, granite, marble, stone (including pumice, scoria, and slate), brick and tile clay, shale, oyster and clam shell, and asbestos; and the following at the rate of 15 percent: Borax, fuller's earth, refractory and fire clay, quartzite, perlite, diatomaceous earth, metallurgical and chemical grade limestone and tripoli.	
Coal: Increased the allowance from 5 to 10 percent.	
Thenardite: Removed the restriction which only allows the 15-percent rate when it is obtained from brines and mixtures of brine.	
Loss from changes in percentage depletion.....	-67
(G) VENTURE CAPITAL	
Amended sec. 361 of the Internal Revenue Code so as to exempt from corporation income tax venture capital companies which have as their principal purpose the supplying of capital to corporations engaged principally in developing or exploiting new inventions, improvements or new devices, processes or products, where such companies distribute substantially all their income, including capital gains, to their stockholders. These companies would be exempt from tax even though they own more than 10 percent of the stock of the companies in which they have investments. Effective Jan. 1, 1951.	
Footnotes at end of table.	

Summary of the provisions of H. R. 4473 (revenue bill of 1951), as prepared by the staff of the Committee on Ways and Means—Continued

	Amount (millions)
IV. MISCELLANEOUS—Continued	
(H) WITHHOLDING ON DIVIDENDS, ROYALTIES, AND CERTAIN PAYMENTS OF INTEREST TO INDIVIDUALS	
Effective for amounts paid in 1952 and subsequent years, payors would be required to withhold tax at the rate of 20 percent, without personal exemption, and transmit to the Bureau of Internal Revenue 20 percent of gross payments. Records of amounts withheld for each individual would not be required for either the Bureau or individual payees except as set forth under Form 1099 information returns below. Tax-exempt organizations would be permitted to claim credit for taxes withheld on payments to them as an offset against their liability for income and social security taxes withheld from wages paid their employees. Recipients would proceed in filing income tax returns just as they do now in the case of salaries and wages where taxes have been withheld, taking credit for taxes withheld and claiming refund if overpayment has occurred. The following payments would be subject to the withholding requirement with exceptions specified:	
(1) Dividends, except patronage dividends of cooperatives and amounts paid by mutual savings banks, building and loan associations, savings and loan associations, homestead associations, credit unions, cooperative banks or similar organizations on "withdrawable or repurchasable shares," investment certificates or deposits.	
(2) Royalty payments in respect of mines, oil and gas wells and other natural deposits, patents, copyrights, trade marks, etc.	
(3) Interest on bonds or other evidences of indebtedness of corporations, on deposits with stock brokers, on amounts held by an insurance company under agreement, and on overpayment of Federal taxes except corporate income or excess profits taxes; but excluding interest on United States savings bonds, postal savings certificates, and bank deposits; and interest paid by savings and loan associations, building and loan associations, cooperative banks, homestead associations, credit unions and similar organizations.	
Total from withholding from dividends, royalties, and interest....	\$323
Refund claims: Recipients would be permitted to accumulate refund claims for a period of 7 years for the first \$2 withheld each year. The present 3-year statute would be applicable on the amount of claims in excess of \$2 each year.	
Form 1099 information returns: Required on payments of interest of \$100 or more where withholding is not applicable, and on payments of dividends and interest of \$300 or more where withholding is applicable, and on all royalty payments. Receipts are to be furnished recipients of royalty payments only.	
(I) WITHHOLDING ON WAGES AND SALARIES	
Increased amount to be withheld from 18 percent to about 20 percent, effective with respect to wages and salaries paid on or after Sept. 1, 1951. (This change made necessary so as to collect additional taxes due resulting from the imposition of the defense tax of 12½ percent on individuals.) Permitted employers and employees to agree to have withholding on wages and salaries at a rate which will cover full tax liability of employees.	
Total estimated increase in revenue from all taxes.....	7,199

- ¹ Loss negligible.
- ² Estimate does not show effect on revenue of floor stocks tax since it is applied only on effective date of increase.
- ³ Estimate does not show effect on revenue of floor-stocks tax and refund since they apply only on effective date of increase.
- ⁴ No effect.
- ⁵ This will result in an increase in revenue of less than \$500,000.
- ⁶ No continuing effect.
- ⁷ See income taxes.
- ⁸ No permanent loss.
- ⁹ No effect.
- ¹⁰ This estimate is the increase over receipts under pre-1950 formula.

Reports of Experiments Conducted at Eniwetok

EXTENSION OF REMARKS
OF
HON. F. EDWARD HÉBERT
OF LOUISIANA

IN THE HOUSE OF REPRESENTATIVES
Monday, June 18, 1951

Mr. HÉBERT. Mr. Speaker, I recently had the privilege of witnessing the atomic-bomb tests and thermonuclear experiments conducted by Joint Task Force 3 on Eniwetok Atoll. I was there as the representative of the House Armed Services Committee through designation by the distinguished gentleman from Georgia [Mr. VINSON], chairman of the committee.

Subsequent to my appointment and prior to my departure for the tests I was requested by Mr. Frank Allen, managing editor of the Pulitzer prize winning newspaper, the New Orleans States, to write my impressions of the blasts. I assured Mr. Allen I would do so provided I had the permission and clearance of the Atomic Energy Commission.

I explained the request to the Honorable Gordon Dean, Chairman of the Atomic Energy Commission, and requested that he clear for security anything which I might write or say concerning the atomic bomb tests. Mr. Dean agreed to do so and has been most cooperative. At the suggestion of Mr. Dean it was further agreed that anything which I might write would only be released after Lt. Gen. Elwood R. (Pete) Quesada, commander of Joint Task Force Three, would make his official report in Washington at a general press conference.

In accordance with this agreement I prepared a series of articles and submitted them to Mr. Dean who read and discussed them with me informally. After this conference I had prepared another manuscript and this paper was formally submitted to the Atomic Energy Commission and carefully checked and censored for purposes of security. A third manuscript was then prepared for release and publication under the copyright of the New Orleans States, which had requested the articles.

The New Orleans States, through Mr. Allen, subsequently made the articles

available to the Associated Press, the International News Service, the Newspaper Enterprise Association, through Peter Edson, the Gannett newspapers, the newspapers serviced by the office of Bascom N. Timmons, the New York News and the Chicago Tribune through John O'Donnell, and many other newspapers.

A personal description of the blast by radio was given by me for use over the two radio stations operated and owned in Louisiana by former Gov. James A. Noe, Station WNOE at New Orleans and Station KNOE at Monroe, La. A number of other radio stations subsequently obtained copies of the broadcast and used them on the air. These included Edward R. Murrow's feature program over the Columbia Broadcasting System.

Two things are important in connection with the articles.

The first is that they were cleared by the Atomic Energy Commission and released only with permission of that agency.

The second is that I received no remuneration or fee of any kind whatsoever in connection with the articles.

I was approached to sell the articles but rejected the proposal on the basis that these articles were the result of an official trip which I had made at the expense of the Government and I did not feel that I should be reimbursed for something which I had done in an official capacity. This was the same position which I had taken in 1945 when I was a member of a subcommittee of the old Naval Affairs Committee and had gone to Europe shortly after the cessation of hostilities. Upon my return I wrote a book in the form of a personal diary which I called, "I went, I saw, I heard."

This book was subsequently published by some civic-minded individuals in New Orleans and were placed on sale. I refused to accept any remuneration for the book and requested that any profits derived be turned over to the Navy relief fund.

I merely recite these facts in order to keep the record straight on the subject. I offer the explanation in order that there will not be any doubt in anybody's mind concerning any phase of these articles. It is just something about which I feel very keenly and desired to express myself.

And now to the subject at hand and the purpose of my request to bring this matter before the House.

Since the publication of these articles I have been deluged with congratulatory messages.

Being human and having all the weaknesses attendant to being human, I naturally have been most flattered by these many compliments and in them feel a great degree of satisfaction. The reaction has gone far beyond any expectation which I ever had in connection with these articles when I first sat down at a typewriter to write them.

Many of my colleagues have been gracious enough to urge that I place these articles in the Record in order that they may become a permanent record. I have agreed to do so and for that reason I have asked permission to bring them to your attention at this time.

There were three articles.

The first article, which is the eyewitness description of the actual explosion of the bomb, will, of course, be found the most interesting and dramatic.

The second article deals with the everyday life on Eniwetok, while the third article is composed of some amusing and interesting anecdotes which I picked up on my trip there.

I hope these articles will prove interesting, informative, and entertaining to each one of you.

I feel that in writing them I have discharged a responsibility which has been placed on me as one being privileged to witness these epoch experiments.

ARE WE PLAYING WITH THINGS WHICH BELONG ONLY TO GOD?—HAVE I SEEN THE END OF THE WORLD?

(By Representative F. EDWARD HÉBERT)

I have seen and heard the greatest explosion ever created by man in the history of the world.

I had a feeling that I was standing at the gates of hell looking into eternity.

I was at Eniwetok.

It was an unforgettable experience which defies description.

There space was annihilated—there time was measured by the millionth of a second and heat multiplied by a million times a degree Fahrenheit.

The sensation, the emotion, the reaction to witnessing an atom bomb explosion for the first time is something which cannot be reduced to paper nor translated into words. It is something far beyond written or oral description. It is something which challenges the imagination and confuses the realization of what has really happened.

There is an empty feeling in the pit of your stomach and you are bewildered when out of the blackness a great ball of fire plunges into your vision and a wave of heat simultaneously sweeps across your face.

"What am I doing here?" is about the only question that comes into your mind and it is a question which has no answer because everything else is forgotten.

You feel so pitifully helpless.

I have walked the streets of destroyed Hiroshima and have seen the scarred victims of the first atomic blast ever dropped on a people.

I have flown over Nagasaki, where the second atom bomb was dropped.

I have heard first-hand the details of the dropping of the first bomb by the men who dropped the bomb and I have been thoroughly saturated with the scientific explanation of the splitting of the atom but all of that means nothing when you are brought face to face with the experience of actually being present when an atom bomb is exploded.

Of course every precaution is taken for the safety of yourself and those involved in the explosion but the cold fact that you are about to witness an experiment cannot be erased from your mind.

You keep asking yourself the question:

"Suppose something goes wrong, what then?"

Theoretically and scientifically you have been placed in a position which is safe from harm according to the calculations of human beings, but suppose they have miscalculated? Suppose they have made a mistake?

This Eniwetok experiment was something new. It was to be something more powerful and more devastating than anything else which man had ever attempted.

This bomb was several times the power of the bomb dropped on Hiroshima.

In order to better understand the power involved take the Hiroshima bomb as an example.

This bomb detonated approximately 20,000 tons of TNT as measured by atomic energy.

By the same yardstick the explosion of nitrate at Texas City several years ago which killed hundreds of persons and practically destroyed the city detonated approximately 1,500 tons of comparable power.

This Hiroshima's bomb was approximately 10 times greater than the Texas City's blast and the bomb which was detonated in connection with the effect on structures at Eniwetok was several times greater than Hiroshima which destroyed that city and the blast which I witnessed was even greater than that.

Here's another way to explain the power.

Suppose an ordinary stick of dynamite, as used in a hand grenade, was stacked one on top the other, it would encase the outside of a 17-story office building on a city square of ground.

By arithmetical deduction, a bomb for example $2\frac{1}{2}$ times 20, kilotons, would mean 100,000,000 pounds of dynamite or TNT. And, measured according to the building yardstick, it would represent approximately a 60-story building on four squares of city ground.

And again the blast which I witnessed at Eniwetok was greater than this.

It certainly must now become apparent how difficult it is fully grasp the potential of such an explosion to fully comprehend its destructive capacity.

It was calculated to generate heat greater than that which man believes to be in the center of the sun.

Whether or not it was to be a success was strictly a matter of conjecture—and hope.

Perhaps to the scientific mind the atom bomb can be understood and its full meaning of a millionth-of-a-second measurement grasped, but certainly not to a lay mind like myself. It was all beyond my comprehension.

I kept recalling a story which I had heard when I was a student at Jesuits. It was told during the course of a retreat by a learned Jesuit priest who was attempting to make our young minds realize and grasp the significance and the understanding of what eternity really meant.

"Suppose a tiny sparrow would take one drop of water from the Atlantic Ocean" he had explained, "and cross the continent with that drop of water and deposit it in the Pacific Ocean. Then suppose the sparrow would return to the Atlantic Ocean and get another drop of water and again fly across the continent and deposit that drop in the Pacific Ocean until the Atlantic Ocean had been emptied into the Pacific Ocean, then eternity would only be beginning."

As eternity defies full understanding and comprehension so does the full import and significance of an atom bomb defy understanding and comprehension.

The moment of detonation of an atom bomb is the result of the cooperation and physical endeavor and output of thousands of men multiplying that many more hours.

The day of the shot comes only after months and months of preparation.

The experiment started many years ago when the mind of man first conceived the idea of splitting the atom. Eniwetok itself started a long, long time ago in scientific minds, was then translated to the laboratory and now brought into full scale experimental force.

I frankly didn't know what to expect when I arrived on Eniwetok. I had no idea or conception of what it would be like.

Those in the official party of observers, and they were limited, departed from Washington early one morning. We were in California approximately 10 hours later. The next morning we left for Hawaii and were there just before the sun went down. Next morning we winged out over the Pacific and landed at Eniwetok shortly before dusk after flying over Bikini, the site of the first postwar atomic experiment after Nagasaki.

Lt. Gen. Elwood R. (Pete) Quesada and his staff met us upon arrival and escorted

Please return to
CHIEF, JIVE REPORTING
Office of Budget and Finance

82D CONGRESS 1st Session	}	HOUSE OF REPRESENTATIVES	}	REPORT No. 629
-----------------------------	---	--------------------------	---	-------------------

CONSIDERATION OF H. R. 4473

JUNE 19, 1951.—Referred to the House Calendar and ordered to be printed.

Mr. SABATH, from the Committee on Rules, submitted the following

R E P O R T

[To accompany H. Res. 262]

The Committee on Rules, having had under consideration House Resolution 262, reports the same to the House with the recommendation that the resolution do pass.



of the

100

on the 10th of the month of the year 1000
the 10th of the month of the year 1000
the 10th of the month of the year 1000

House Calendar No. 48

82^D CONGRESS
1ST SESSION

H. RES. 262

[Report No. 629]

IN THE HOUSE OF REPRESENTATIVES

JUNE 19, 1951

Mr. SABATH from the Committee on Rules, reported the following resolution;
which was referred to the House Calendar and ordered to be printed

RESOLUTION

1 *Resolved*, That immediately upon the adoption of this
2 resolution it shall be in order to move that the House resolve
3 itself into the Committee of the Whole House on the State
4 of the Union for the consideration of the bill (H. R. 4473)
5 to provide revenue, and for other purposes, and all points
6 of order against the bill are hereby waived. That after gen-
7 eral debate, which shall be confined to the bill and continue
8 not to exceed two days, such general debate to end not later
9 than four o'clock post meridiem on the second day of debate,
10 and which shall be confined to the bill, to be equally divided
11 and controlled by the chairman and ranking minority mem-
12 ber of the Committee on Ways and Means, the bill shall be

1 considered as having been read for amendment. No amend-
2 ment shall be in order to said bill except amendments offered
3 by the direction of the Committee on Ways and Means, and
4 said amendments shall be in order, any rule of the House to
5 the contrary notwithstanding. Amendments offered by
6 direction of the Committee on Ways and Means may be
7 offered to any section of the bill at the conclusion of the
8 general debate, but said amendments shall not be subject
9 to amendment. At the conclusion of the consideration of the
10 bill for amendment, the Committee shall rise and report
11 the bill to the House with such amendments as may have
12 been adopted, and the previous question shall be considered
13 as ordered on the bill and amendments thereto to final pas-
14 sage without intervening motion except one motion to
15 recommit.

82ND CONGRESS
1ST SESSION

H. RES. 262

[Report No. 629]

RESOLUTION

Providing for the consideration of H. R. 4473,
to provide revenue, and for other purposes.

By Mr. SABATH

JUNE 19, 1951

Referred to the House Calendar and ordered to be
printed

It was Col. Lewis A. Pick who collaborated with the then United States Chief of Engineers Gen. Jadwin and the famous Jadwin plan for the protection of the lower Mississippi River Valley was born and legislation introduced and passed by the Congress, which plan has been followed by succeeding Chiefs of the Corps of Engineers, and is even today being prosecuted, and with a few more years appropriations from Congress the plan and program will be completed and forever give protection and security to the people of the lower Mississippi River Valley.

After the Jadwin-Pick plan got under way on the Mississippi, General Pick was transferred to the Missouri River Basin, and there again who worked out a comprehensive plan for the Missouri River Basin? You know. Everyone in the Missouri River Valley knows. Gen. Lewis A. Pick. There were great reclamation projects under way in the Missouri River Valley at that time, and it was necessary for General Pick to cooperate with the then representative of the Reclamation Bureau, Mr. Sloane. Then was born the Pick-Sloane plan for the protection of the Missouri River Valley. Like the lower Mississippi River plan, the Pick-Sloane plan for the Missouri River Basin is now being completed.

During World War II General Pick was assigned the most difficult tasks that any engineer had ever undertaken, and all his missions were completed.

Ever heard of the Lido Road? And who built it? Gen. Lewis A. Pick, then a brigadier general in World War II, was given the task of building this road through what was known as impenetrable jungles—through a country where the white man had never before set foot.

Mr. Speaker, I have heard the story of the building of the Lido Road in the India-Burma-China theater. Every GI could tell it.

It was said that General Pick was assigned the task of building the Lido Road by the Joint Chiefs of Staff and he was sent a complement of the best engineers in the Corps and engineers of fame from civil life to assist him in planning and building this great strategic undertaking.

When these engineers arrived on the scene General Pick immediately called a meeting of the group to discuss the problem. Maps were checked and the assistants given a chance to inspect as much of the country as possible and make a study and report back to General Pick. A meeting was held by General Pick and the engineers all given an opportunity to express their opinions. Every one of the engineers present stated that it was an impossible task. After all of them had spoken and advised against the undertaking General Pick rose and said "Gentlemen, all right, we will begin building the Lido Road tomorrow morning, and we will build it." And in spite of all the almost seemingly insurmountable obstacles and the opinions and advice of famous engineers, General Pick completed the Lido Road on schedule.

I could go on and on and tell you of the exploits and leadership of General Pick as an engineer and the great works

that were built under his supervision. The great dams in the West and Northwest, the works on the Columbia River and others—all will bear the imprint of a great engineer and a great patriotic American.

Last year when the Midwest was in the throes of a blizzard, one of the worst in the history of this country, the President sent General Pick to take personal charge of the operations to save the lives of the people and save thousands of head of livestock from destruction. This he did without much acclaim.

Looking back on the disasters in our country, our people in Louisiana and the entire Mississippi River Valley were reassured and glad to have General Pick in charge of the fight in the greatest of all floods in the Mississippi River Valley, the flood of 1927, when General Pick was a colonel in charge of the New Orleans, La., district engineer's office where he made a brilliant fight with the odds against him.

It has been my pleasure within the last few months to listen to several magnificent speeches given by General Pick before a number of waterway organizations, and if we will follow his advice and recommendations, there is no question in my mind that the country will be more securely protected from floods; that our resources will be conserved, and that most of our water and waterway problems will be solved.

Mr. Speaker, Gen. Lewis A. Pick needs no defense from me to testify to his ability, character, honor, and devotion to his position as a great engineer, his devotion to his country, and the respect and esteem in which he is held by the American people in all parts of the country, for long ago it has been said "By their works, ye shall know them" and the great works of General Pick as an Army engineer, a soldier, a Christian gentleman, a good and kind man, his dependability will stand, now and long after he has passed this earth, and his great works will stand as monuments to his brilliant career.

I have said before and I repeat, that I hope that General Pick will have the opportunity to build the Great Lakes-St. Lawrence seaway project as the crowning glory of a great engineer and a great American.

(Mr. LARCADE asked and was given permission to revise and extend his remarks.)

LEAVE OF ABSENCE

By unanimous consent, leave of absence was granted to Mr. TEAGUE and Mr. EVINS (at the request of Mr. PRIEST), for Tuesday, June 19, 1951, on account of official business.

EXTENSION OF REMARKS

Mr. MCCORMACK asked and was given permission to extend his remarks and include a telegram received from Governor Dever, of Massachusetts.

Mr. RILEY asked and was given permission to extend his remarks and include an editorial appearing in the Augusta Chronicle.

Mr. BARTLETT asked and was given permission to extend his remarks and include a newspaper article.

Mr. PASSMAN asked and was given permission to extend his remarks and include an address delivered by Miss Margaret Hunter of Gilbert, La.

Mr. YORTY asked and was given permission to extend his remarks in three instances and include extraneous matter.

Mr. POLK asked and was given permission to extend his remarks and include a copy of a bill he introduced yesterday.

Mr. LANE asked and was given permission to extend his remarks in three instances and include extraneous matter.

Mr. MORANO asked and was given permission to extend his remarks and include an editorial appearing in Life.

Mr. ANGELL asked and was given permission to extend his remarks and include an editorial.

Mr. DONDERO and Mr. AYRES asked and were given permission to extend their remarks.

Mr. HUGH D. SCOTT, JR., asked and was given permission to extend his remarks and include extraneous matter.

Mr. HAYS of Ohio and Mr. RANKIN asked and were given permission to extend their remarks and include extraneous matter.

Mr. BUSBEY asked and was given permission to revise and extend the remarks he made in Committee and include extraneous matter.

Mr. RIBICOFF (at the request of Mr. KLEIN) was given permission to extend his remarks and include extraneous matter.

Mr. ADDONIZIO (at the request of Mr. RODINO) was given permission to extend his remarks and include an editorial.

Mr. RODINO asked and was given permission to extend his remarks and include an editorial.

Mr. ASPINALL asked and was given permission to extend his remarks in two instances and include editorials.

Mr. VAN ZANDT (at the request of Mr. CRAWFORD) was given permission to extend his remarks in two instances and include editorials.

Mr. CLEVINGER (at the request of Mr. CRAWFORD) was given permission to extend his remarks and include an editorial.

Mr. STEFAN asked and was given permission to extend his remarks in four instances and include editorials.

Mr. CURTIS of Nebraska asked and was given permission to extend his remarks and include a newspaper article.

Mr. GOSSETT asked and was given permission to extend his remarks and include an editorial.

Mr. OSTERTAG asked and was given permission to extend his remarks and include a newspaper article.

Mr. BUDGE (at the request of Mr. SAYLOR) was given permission to extend his remarks.

ADJOURNMENT

Mr. SHELLEY. Mr. Speaker, I move that the House do now adjourn.

The motion was agreed to; accordingly (at 2 o'clock and 2 minutes p. m.), the House adjourned until tomorrow,

Wednesday, June 20, 1951, at 12 o'clock noon.

EXECUTIVE COMMUNICATIONS, ETC.

538. Under clause 2 of rule XXIV, a letter from the Secretary of the Treasury, transmitting the Annual Report of the Exchange Stabilization Fund created by section 10 (b) of the Gold Reserve Act of 1934 for the fiscal year ending June 30, 1950, pursuant to section 10 (a) of the act, was taken from the Speaker's table and referred to the Committee on Banking and Currency.

REPORTS OF COMMITTEES ON PUBLIC BILLS AND RESOLUTIONS

Under clause 2 of rule XIII, reports of committees were delivered to the Clerk for printing and reference to the proper calendar as follows:

Mr. SABATH: Committee on Rules. House Resolution 262. Resolution providing for the consideration of H. R. 4473, to provide revenue, and for other purposes; without amendment (Rept. No. 629). Referred to the House Calendar.

REPORTS OF COMMITTEES ON PRIVATE BILLS AND RESOLUTIONS

Under clause 2 of rule XIII, reports of committees were delivered to the Clerk for printing and reference to the proper calendar as follows:

Mr. WALTER: Committee on the Judiciary. S. 51. An act for the relief of Arthur Henrik Sorensen, Maren Anderson Sorensen, and minor child, Evelyn Sorensen; without amendment (Rept. No. 587). Referred to the Committee of the Whole House.

Mr. WALTER: Committee on the Judiciary. S. 124. An act for the relief of Mrs. George (Wong Tze-yen) Poy; without amendment (Rept. No. 588). Referred to the Committee of the Whole House.

Mr. WALTER: Committee on the Judiciary. S. 275. An act for the relief of Rafael Kubelik, his wife, Ludmila Kubelik, and their minor son, Martin Kubelik; without amendment (Rept. No. 589). Referred to the Committee of the Whole House.

Mr. WALTER: Committee on the Judiciary. S. 470. An act for the relief of Sister Bertha Pfeiffer and Sister Elzbieta Zabinska; with amendment (Rept. No. 590). Referred to the Committee of the Whole House.

Mr. WALTER: Committee on the Judiciary. S. 631. An act for the relief of Conrad Xavier Charles Maurer; without amendment (Rept. No. 591). Referred to the Committee of the Whole House.

Mr. WALTER: Committee on the Judiciary. S. 879. An act for the relief of Luigi Podesta; without amendment (Rept. No. 592). Referred to the Committee of the Whole House.

Mr. WALTER: Committee on the Judiciary. S. 1229. An act for the relief of Jan Josef Wieckowski and his wife and daughter; with amendment (Rept. No. 593). Referred to the Committee of the Whole House.

Mr. KEATING: Committee on the Judiciary. S. 699. An act for the relief of James M. Shellenberger, Jr., a minor; without amendment (Rept. No. 594). Referred to the Committee of the Whole House.

Mr. GOSSETT: Committee on the Judiciary. H. R. 579. A bill for the relief of Hendryk Kempiski; with amendment (Rept. No. 595). Referred to the Committee of the Whole House.

Mr. GOSSETT: Committee on the Judiciary. H. R. 580. A bill for the relief of Kwangnyeng Chu; with amendment (Rept.

No. 596). Referred to the Committee of the Whole House.

Mr. GRAHAM: Committee on the Judiciary. H. R. 581. A bill for the relief of Isabel Tabit; with amendment (Rept. No. 597). Referred to the Committee of the Whole House.

Mr. GOSSETT: Committee on the Judiciary. H. R. 627. A bill for the relief of Mrs. Tjitske Bandstra Van Der Velde; with amendment (Rept. No. 598). Referred to the Committee of the Whole House.

Mr. FEIGHAN: Committee on the Judiciary. H. R. 677. A bill for the relief of Ramute Alexandra Vallokaitis; with amendment (Rept. No. 599). Referred to the Committee of the Whole House.

Mr. WALTER: Committee on the Judiciary. H. R. 870. A bill for the relief of Anton Bernhard Blikstad; with amendment (Rept. No. 600). Referred to the Committee of the Whole House.

Mr. GRAHAM: Committee on the Judiciary. H. R. 970. A bill to adjust the status of an alien who is in the United States and who is a quota immigrant; with amendment (Rept. No. 601). Referred to the Committee of the Whole House.

Mr. FELLOWS: Committee on the Judiciary. H. R. 1136. A bill for the relief of Sister Natalie (Marie Palagyi) and Sister Alice (Elizabeth Slachta); with amendment (Rept. No. 602). Referred to the Committee of the Whole House.

Mr. FELLOWS: Committee on the Judiciary. H. R. 1420. A bill for the relief of Dr. Eugen Jose Singer and Mrs. Frieda Singer; with amendment (Rept. No. 603). Referred to the Committee of the Whole House.

Mr. GRAHAM: Committee on the Judiciary. H. R. 2158. A bill for the relief of Sister M. Crocetta and Sister M. Reginalda; with amendment (Rept. No. 604). Referred to the Committee of the Whole House.

Mr. GRAHAM: Committee on the Judiciary. H. R. 2160. A bill for the relief of Sister M. Leonida; with amendment (Rept. No. 605). Referred to the Committee of the Whole House.

Mr. FELLOWS: Committee on the Judiciary. H. R. 2292. A bill for the relief of Jai Young Lee; with amendment (Rept. No. 606). Referred to the Committee of the Whole House.

Mr. GRAHAM: Committee on the Judiciary. H. R. 2787. A bill for the relief of Thomas Alva Raphael (Richards); without amendment (Rept. No. 607). Referred to the Committee of the Whole House.

Mr. FEIGHAN: Committee on the Judiciary. H. R. 3214. A bill for the relief of Irene Senutovitch; with amendment (Rept. No. 608). Referred to the Committee of the Whole House.

Mr. GOSSETT: Committee on the Judiciary. H. R. 3819. A bill for the relief of Ann Elisabeth (Diana Elizabeth) Reingruber; without amendment (Rept. No. 609). Referred to the Committee of the Whole House.

Mr. FEIGHAN: Committee on the Judiciary. H. R. 3823. A bill for the relief of Shozo Ichiwawa; without amendment (Rept. No. 610). Referred to the Committee of the Whole House.

Mr. WALTER: Committee on the Judiciary. H. R. 4038. A bill for the relief of Dr. George Alexandros Chromakis; without amendment (Rept. No. 611). Referred to the Committee of the Whole House.

Mr. FELLOWS: Committee on the Judiciary. House Concurrent Resolution 111. Concurrent resolution favoring the granting of the status of permanent residence to certain aliens; without amendment (Rept. No. 612). Referred to the Committee of the Whole House.

Mr. JONAS: Committee on the Judiciary. H. R. 623. A bill for the relief of Carroll O. Switzer; without amendment (Rept. No.

613). Referred to the Committee of the Whole House.

Mr. BYRNE of New York: Committee on the Judiciary. H. R. 828. A bill for the relief of Maj. Bruce B. Calkins; with amendment (Rept. No. 614). Referred to the Committee of the Whole House.

Mr. JONAS: Committee on the Judiciary. H. R. 1485. A bill for the relief of R. E. Agee and Margaret E. Agee; with amendment (Rept. No. 615). Referred to the Committee of the Whole House.

Mr. GOODWIN: Committee on the Judiciary. H. R. 1688. A bill for the relief of James J. Lieberman; without amendment (Rept. No. 616). Referred to the Committee of the Whole House.

Mr. BYRNE of New York: Committee on the Judiciary. H. R. 1961. A bill for the relief of Guy Christian; without amendment (Rept. No. 617). Referred to the Committee of the Whole House.

Mr. JONAS: Committee on the Judiciary. H. R. 2275. A bill for the relief of J. Alfred Pulliam; with amendment (Rept. No. 618). Referred to the Committee of the Whole House.

Mr. BYRNE of New York: Committee on the Judiciary. H. R. 2459. A bill for the relief of Ollie O. Evans, Jr.; with amendment (Rept. No. 619). Referred to the Committee of the Whole House.

Mr. BYRNE of New York: Committee on the Judiciary. H. R. 2550. A bill for the relief of Thomas G. Digges; without amendment (Rept. No. 620). Referred to the Committee of the Whole House.

Mr. BYRNE of New York: Committee on the Judiciary. H. R. 3730. A bill for the relief of the estate of Elwood Grissinger; without amendment (Rept. No. 621). Referred to the Committee of the Whole House.

Mr. RODINO: Committee on the Judiciary. H. R. 2858. A bill for the relief of William C. Reed; without amendment (Rept. No. 622). Referred to the Committee of the Whole House.

Mr. GOODWIN: Committee on the Judiciary. H. R. 3430. A bill for the relief of the estate of Nora B. Kennedy; with amendment (Rept. No. 623). Referred to the Committee of the Whole House.

Mr. RODINO: Committee on the Judiciary. H. R. 3891. A bill for the relief of Paul D. Banning, Chief Disbursing Officer, Treasury Department, and for other purposes; without amendment (Rept. No. 624). Referred to the Committee of the Whole House.

Mr. RODINO: Committee on the Judiciary. H. R. 3966. A bill for the relief of George S. Paschke; without amendment (Rept. No. 625). Referred to the Committee of the Whole House.

Mr. BYRNE of New York: Committee on the Judiciary. H. R. 4226. A bill for the relief of Walter M. Smith; with amendment (Rept. No. 626). Referred to the Committee of the Whole House.

Mr. BYRNE of New York: Committee on the Judiciary. H. R. 3246. A bill for the relief of Mrs. Maud M. Wright and Mrs. Maxine Roberts, formerly Mrs. Maxine Mills; with amendment (Rept. No. 627). Referred to the Committee of the Whole House.

Mr. BYRNE of New York: Committee on the Judiciary. H. R. 4269. A bill for the relief of John S. Downing; without amendment (Rept. No. 628). Referred to the Committee of the Whole House.

PUBLIC BILLS AND RESOLUTIONS

Under clause 3 of rule XXII, public bills and resolutions were introduced and severally referred as follows:

By Mr. BLATNIK:
H. R. 4509. A bill to increase the membership of the District of Columbia Recreation Board, and for other purposes; to the Committee on the District of Columbia.

ual veteran was, and the questioning of determining, therefore, the credits that would be allowed or not allowed.

Mr. RANKIN. This includes income from all sources.

Mr. BYRNES of Wisconsin. But does it not require a constant check? In other words, at the present time, as I understand it, a determination is made at the beginning of the year and this will require the determination to be made constantly as the income changes, does it not?

Mr. RANKIN. That is right.

Mr. BYRNES of Wisconsin. So that from now on the veterans will have to report in any change in their income status?

Mr. RANKIN. That is correct.

Mr. BYRNES of Wisconsin. Whether it occurs during the course of the year?

Mr. RANKIN. That is correct.

Mr. BYRNES of Wisconsin. And the gentleman does not feel that would impose too much of an administrative burden to use that type of rule?

Mr. RANKIN. No. I do not think it would impose any extra burden, because they can report from time to time.

Mrs. ROGERS of Massachusetts. Mr. Speaker, will the gentleman yield?

Mr. RANKIN. I yield.

Mrs. ROGERS of Massachusetts. The same thing is done under the present law, so this does not add anything.

Mr. RANKIN. Why, certainly.

Mr. AUGUST H. ANDRESEN. Mr. Speaker, will the gentleman yield?

Mr. RANKIN. I yield.

Mr. AUGUST H. ANDRESEN. How would they consider cases under the proposed bill for a widow with minor children? What would her income be?

Mr. RANKIN. Three thousand dollars.

Mr. AUGUST H. ANDRESEN. So the dependents are included to raise the income level?

Mr. RANKIN. To raise it \$500 for widows with dependents.

Mr. TACKETT. Mr. Speaker, will the gentleman yield?

Mr. RANKIN. I yield.

Mr. TACKETT. Relative to a widow or mother of a deceased veteran, what are the limitations on her ownership of property which may have come to her by virtue of the death of a veteran?

Mr. RANKIN. That is not involved.

Mr. TACKETT. That is no longer a question?

Mr. RANKIN. It is a question of income.

Mr. TACKETT. Only a question of income?

Mr. RANKIN. Yes.

Mr. TACKETT. I thank the gentleman.

Mr. KEAN. Mr. Speaker, will the gentleman yield?

Mr. RANKIN. I yield.

Mr. KEAN. How about life insurance? There has been some criticism about this provision because of the fact that somebody who gets a life-insurance payment in five yearly installments is considered to have received income for those 5 years, whereas, if the person gets the life insurance in a lump sum, he is exempted. Does the same situation continue here?

Mr. RANKIN. That is included in the present law. The only thing this bill does is just to raise the limitation.

Mr. KEAN. There is no change in that provision, which I might say I think is very unfair?

Mr. RANKIN. And it includes income from all sources.

Mr. FULTON. Mr. Speaker, will the gentleman yield?

Mr. RANKIN. I yield.

Mr. FULTON. If there is a widow with three dependent children, for example, and the children have income, is the income of the whole family unit added up to make this limit, or is it just the widow's income alone that is considered?

Mr. RANKIN. They will be counted as single individuals, and the \$1,800 provision would apply.

Mr. FULTON. The income then of each child is considered separate and apart from the income of every other child and from its mother?

Mr. RANKIN. Yes, that is the law now.

The SPEAKER. The time of the gentleman from Mississippi has expired.

Mr. McCORMACK. Mr. Speaker, I ask unanimous consent that the gentleman's time be extended for five additional minutes.

The SPEAKER. Is there objection to the request of the gentleman from Massachusetts?

There was no objection.

Mr. FULTON. If the mother's income is over, for example, nevertheless the children's benefits might continue separately?

Mr. RANKIN. That is right.

Mr. JAVITS. Mr. Speaker, will the gentleman yield for a question?

In considering the bill did the subcommittee which, I gather, had hearings on the bill consider also the whole question of the cost of living of a normal family and try to adjust the whole problem on that basis?

Mr. RANKIN. That is exactly what we are trying to do.

Mr. JAVITS. That seems to me to be the essential basis.

Mr. McCORMACK. Mr. Speaker, will the gentleman yield?

Mr. RANKIN. I yield.

Mr. McCORMACK. I remember this bill, or a similar bill, passed in a previous Congress, is that correct?

Mr. RANKIN. It was reported from the committee.

The SPEAKER. The question is on the engrossment and third reading of the bill.

The bill was ordered to be engrossed and read a third time, and was read the third time.

The SPEAKER. The question is on the passage of the bill.

The bill was passed.

A motion to reconsider was laid on the table.

COST-OF-LIVING INCREASE IN COMPENSATION AND PENSION RATES

Mr. RANKIN. Mr. Speaker, I call up the last bill, H. R. 4394, to provide certain increases in the monthly rates of compensation and pension payable to veterans and their dependents, and for other purposes.

The Clerk read the title of the bill.

Mr. RANKIN. Mr. Speaker, I ask unanimous consent that this bill be considered in the House as in Committee of the Whole.

The SPEAKER. Is there objection to the request of the gentleman from Mississippi?

There was no objection.

The Clerk read the bill, as follows:

Be it enacted, etc., That all monthly rates of compensation payable under laws administered by the Veterans' Administration for disability rated 10 percent to 49 percent are hereby increased by 5 percent, and for disability rated 50 percent to 100 percent are hereby increased by 15 percent: *Provided,* That such increases shall not apply to special awards and allowances, dependency allowances, or subsistence allowances.

SEC. 2. Paragraph I (f), part III, Veterans Regulation No. 1 (a), as amended, is hereby amended to read as follows:

"I. (f) The amount of pension payable under terms of part III shall be \$63 monthly, except that, where such veterans shall have been rated permanent and total and in receipt of pension for a continuous period of 10 years or reach the age of 65 years, the amount of pension shall be \$75 monthly: *Provided, That—*"

SEC. 3. Paragraph IV of part I of Veterans Regulation No. 1 (a), as amended, is hereby amended to read as follows:

"IV. The surviving widow, child or children, and dependent mother or father of any deceased person who died as the result of injury or disease incurred in or aggravated by active military or naval service as provided in part I, paragraph I, hereof, shall be entitled to receive compensation at the monthly rates specified next below:

"Widow but no child, \$75; widow with one child, \$121 (with \$29 for each additional child); no widow but one child, \$67; no widow but two children, \$94 (equally divided); no widow but three children, \$122 (equally divided) (with \$23 for each additional child; total amount to be equally divided); dependent mother or father, \$60 (or both), \$35 each."

SEC. 4. Section 2 of Public Law No. 484, Seventy-third Congress, as amended, is hereby amended to read as follows:

"Sec. 2. That the monthly rates of pension shall be as follows: Widow but no child, \$48; widow and one child, \$60 (with \$7.20 for each additional child); no widow but one child, \$26; no widow but two children, \$39 (equally divided); no widow but three children, \$52 (equally divided) with \$7.20 for each additional child (the total amount to be equally divided)."

SEC. 5. The increased rates authorized by this act shall be effective from the first day of the second calendar month following the date of approval of this act.

Mr. RANKIN. Mr. Speaker, this bill represents considerable study by a subcommittee which had presented to it several bills proposing to give a cost-of-living increase in all rates of compensation and pension. These proposals ranged from a 10 percent increase to 25 percent.

The bill, as reported, provides for a 5 percent increase in the rates of compensation where the disability is less than 50 percent, and where the disability is rated more than 50 percent, the increase is 15 percent. In the case of compensation for widows and children because of a service-connected death, no increase is given the widow without children, but the widows with children are increased by 15 percent.

Pension rates applicable to non-service-connected cases today are \$60 a

month, or \$72 if the veteran has been on the rolls for a continuous period of 10 years or has reached the age of 65. This bill provides a \$3 increase in both these categories to make the rates \$63 and \$75. For widows' pensions for World War I and II, the committee has endeavored to raise this group to the level of the Spanish War widows. The present rate for a widow of World War I or II is \$42, and this bill brings it up to \$48 to make it uniform with the Spanish War. Similar increase is provided for children.

The Veterans' Administration has advised that the first year cost would be approximately \$148,000,000.

Mr. FULTON. What is the cost per year?

Mr. RANKIN. It is estimated it will cost \$148,000,000.

Mr. Speaker, I submit the bill is justified and should be passed.

Mrs. ROGERS of Massachusetts. Mr. Speaker, I am delighted that the membership of this House has taken this day for the consideration of legislation beneficial to veterans and their dependents. In all 11 bills have been considered and passed.

Of course, I am especially pleased at the passage of the amputee car bill. I have just telephoned the good news to the Korean conflict amputees at Walter Reed Hospital. There are about 200 of them out there, and they are overjoyed by your favorable action in their behalf. There is no doubt but that the passage of this bill will affect most favorably the physical progress of these badly wounded men. Many of them face operation after operation before they can be discharged, but as one 19-year-old legless veteran said to me: "This gives us something to look forward to. It probably means the difference between getting a job and being idle at home." They are fine, uncomplaining young men and you have enheartened them greatly.

The SPEAKER. The question is on the engrossment and third reading of the bill.

The bill was ordered to be engrossed and read a third time, and was read the third time.

The SPEAKER. The question is on the passage of the bill.

The bill was passed.

A motion to reconsider was laid on the table.

GENERAL LEAVE TO EXTEND

Mr. RANKIN. Mr. Speaker, I ask unanimous consent that all Members may have five legislative days in which to revise and extend their remarks on the bills just passed.

The SPEAKER. Is there objection to the request of the gentleman from Mississippi?

There was no objection.

Mr. RANKIN. That is all we have at this time, Mr. Speaker.

The SPEAKER. The Clerk will continue to call the committees.

The Clerk called the Committee on Ways and Means.

The SPEAKER. That concludes the call of the committees on Calendar Wednesday.

HOOR OF MEETING TOMORROW

Mr. McCORMACK. Mr. Speaker, as it is the intention only to adopt the rule today on the tax bill, I ask unanimous consent, after consultation with members on both sides of the Ways and Means Committee and the leadership on both sides, that when the House adjourns today it adjourn to meet tomorrow at 10 o'clock.

The SPEAKER. Is there objection to the request of the gentleman from Massachusetts?

There was no objection.

REVENUE ACT, 1951

Mr. SABATH. Mr. Speaker, I call up House Resolution 262 and ask for its immediate consideration.

The Clerk read the resolution, as follows:

Resolved, That immediately upon the adoption of this resolution it shall be in order to move that the House resolve itself into the Committee of the Whole House on the State of the Union for the consideration of the bill (H. R. 4473) to provide revenue, and for other purposes, and all points of order against the bill are hereby waived. That after general debate, which shall be confined to the bill and continue not to exceed 2 days, such general debate to end not later than 4 o'clock p. m., on the second day of debate, and which shall be confined to the bill, to be equally divided and controlled by the chairman and ranking minority member of the Committee on Ways and Means, the bill shall be considered as having been read for amendment. No amendment shall be in order to said bill except amendments offered by the direction of the Committee on Ways and Means, and said amendments shall be in order, any rule of the House to the contrary notwithstanding. Amendments offered by direction of the Committee on Ways and Means may be offered to any section of the bill at the conclusion of the general debate, but said amendments shall not be subject to amendment. At the conclusion of the consideration of the bill for amendment, the Committee shall rise and report the bill to the House with such amendments as may have been adopted, and the previous question shall be considered as ordered on the bill and amendments thereto to final passage without intervening motion except one motion to recommit.

The SPEAKER pro tempore (Mr. WALTER). The gentleman from Illinois [Mr. SABATH] is recognized for 1 hour.

Mr. SABATH. Mr. Speaker, as usual, I am pleased to say that later on I shall grant 30 minutes of the hour of debate allotted on the rule to the gentleman from Ohio [Mr. BROWN].

Mr. Speaker, this is a closed rule and provides for 2 days of general debate, with the debate closing not later than tomorrow at 4 o'clock.

Mr. BROWN of Ohio. The gentleman means Friday at 4 o'clock, does he not? We are not going to start debating the bill until tomorrow.

Mr. SABATH. Friday at 4 o'clock. I thank the gentleman for the correction. Once in a while he is right.

Mr. BROWN of Ohio. The gentleman from Illinois this time was wrong.

Mr. SABATH. I appreciate the gentleman's correction.

To proceed, I wish to say all points of order are waived. No amendments will be permitted unless they be offered by the Committee on Ways and Means.

Mr. MARTIN of Massachusetts. Mr. Speaker, will the gentleman yield?

Mr. SABATH. Yes, I yield to the gentleman from Massachusetts.

Mr. MARTIN of Massachusetts. I should like to ask the gentleman who has just been explaining the details of the rule if this is one of those vicious rules I have heard the gentleman discuss in the past.

Mr. SABATH. Yes; it is; it is a vicious rule, but all of the Republican Members who appeared before the Rules Committee pleaded and urged and advocated this closed rule to a greater degree than the Democrats.

Mr. MARTIN of Massachusetts. And the gentleman yielded because the Republicans asked him to do it?

Mr. SABATH. Being a good-natured man, sometimes I cannot refuse to yield although I think these gentlemen have been wrong and are wrong, although they appeared urging and pleading for a closed or gag rule. When I asked them whether they would vote for the bill they said they would not. But they wanted a closed rule. Oh, what inconsistency. But that is nothing new, nothing new to me on the part of the Republicans.

Mr. MARTIN of Massachusetts. And my good friend wants to be just as inconsistent as the other people and for that reason is advocating this vicious rule.

Mr. SABATH. No, but under the conditions that exist, with the Nation needing the revenue, I was compelled reluctantly to finally vote to report the rule. But, sir, I make this request and suggestion, and please listen to me. I realize that during all of the years I have been here, only twice, once on a tariff bill and once on a revenue bill, did the House consider such bills without a closed rule and, unfortunately, it required from 6 to 8 weeks to pass those bills in both instances; then it was necessary for the other body to write a bill that would be understood and accepted by the House.

Realizing how complicated these revenue bills are, and this one in particular, and feeling that the House Members should have some right to pass on certain of the provisions in which they are interested or in which they believe, I thought we could have a modified closed rule, making an exception on a stated number of provisions, giving the Members the right and privilege to offer amendments without being foreclosed of that right and privilege which I believe is theirs.

Although I did not succeed in my effort, I am of the opinion that in the future the House will follow the suggestion I offered of a limited or modified closed rule for the consideration of revenue bills such as the one now before us providing for a half dozen or dozen amendments to certain important provisions whereby the bill might be strengthened, corrected, or improved.

I fully appreciate this is a complicated bill. It is this bill or nothing. The Government needs the funds. I am satisfied that the Democratic members of the Ways and Means Committee tried to bring in a more equitable bill that

would be in the interest of the Nation and one which would not impose all of the burdens or most of the burdens on those least able to bear them. But the great Committee on Ways and Means, as in the case of my own Committee on Rules is so constituted as to have two or three reactionary Southern gentlemen as Members who support the interests of big business, together with a number of Republican Members who will have their own way or they will not play ball at all, and in desperation the Democratic members, in order to obtain a favorable vote to report the bill, were obliged to yield on many points to the Republicans. Realizing that some of the provisions in the bill go altogether too far in certain respects and that many of the loopholes have not been closed as I have been urging and advocating, I was under the impression that the omissions could be corrected and that a vote of 11 or 12 members of the Committee on Ways and Means should not foreclose the other 410 members of the House from having the right to say whether some of the loopholes should be closed or not.

Of course, I realize that all legislation is a matter of compromise and that the great chairman of the Ways and Means Committee [Mr. DOUGHTON] together with the gentleman from Tennessee [Mr. COOPER] were obliged to compromise because when they appeared before the Rules Committee and I asked them some questions as to why certain provisions were not included in the bill, they admitted they had voted for them in the committee, that they were in favor of them, but unfortunately, did not receive enough support or enough votes to have their proposals adopted which would have strengthened and improved the bill.

It was stated before my committee that efforts were made by the Democratic membership on the Ways and Means Committee to impose a tax on those cooperatives controlled by a few men, which I believe practical and just. There is room for improvement in the present system of exempting all cooperatives by weeding out those formed with ulterior motives.

I also feel that the provisions of present law which permit the formation of family trusts for the purpose of tax evasion by taking into partnership their wives, daughters, sons, and other relatives to bring them into the lower tax brackets, thus materially reducing their tax liability, should have been eliminated.

The 27½ percent depletion allowance for oil and mining interests now permitted should have been eliminated. This is merely a clever device whereby millions upon millions are accumulated by a favored few in extracting valuable natural resources from the earth. Under this allowance these operators have paid for their properties many times over.

I also feel that the withholding tax on dividends and interest should have been limited to those receiving such returns in the amount of \$1,000 and over. There are many individuals, retired persons, and people of small means who have invested their life savings in stocks and

bonds, many of whom are not required to pay income taxes, who are and will be seriously inconvenienced by the proposal contained in this bill.

Also, nothing has been done about closing the loopholes now taken advantage of by the many private trusts, the subterfuge educational and charitable trusts, the individual corporations established by movie actors for the purpose of exploiting the production of one picture, all designed for the sole purpose of tax dodging.

The present allowances as expense items by large corporations such as golf club fees, yachts and their maintenance and operation, entertainment of all kinds, dinners and banquets, monthly or yearly hotel suite rentals in Washington and other large cities paid for but not utilized except on special occasions for gay parties and the like, are a travesty on equality of taxation and should be eliminated.

The committee has seen fit to continue the temporary stopgap provision for the taxation of life insurance companies contained in the 1950 Revenue Act, but nothing has been done to broaden this provision by including the fire and casualty insurance companies.

It saw fit to increase the tax on beer, wines, and spiritous liquors but it passed up the lucrative field of patent medicines, many of which are nostrums consumed by those who seek the alcoholic content. These are not used for medicinal purposes but are consumed as appetizers in communities and areas where strict local option laws prevail. The southern producer of one such nostrum boasts of the fact that it is good for millions each year—of dollars, not people.

Oh, yes, why not a tax on soft drinks, such as coca cola? I am informed that a tax of 5 cents per case—not per bottle but per case of 24 bottles—on soft drinks would produce many millions from the excessive profits realized in this industry, none of which would have to be passed on to the consumer.

I want to again call your attention to the fact that under the limited closed rule I proposed, many of these lucrative tax sources could be tapped by proper amendments.

Notwithstanding all this, under present conditions and the dire need for greatly increased revenue as a result of our defense program, I feel in honor bound, and my solemn duty to urge the adoption of this rule making this bill in order, in the hope the other body will make adjustments in some of the provisions I have called attention to, all of which are in the interest of the low-income segment of our population.

Mr. FULTON. Mr. Speaker, will the gentleman yield?

Mr. SABATH. I yield to the gentleman from Pennsylvania.

Mr. FULTON. The gentleman has pretty well persuaded me that this is a defective bill. Therefore, does the gentleman want us now to vote for this rule to bring this defective bill up for a vote?

Mr. SABATH. Yes; because we cannot get a perfect bill. Of course, there is nothing perfect under the sun, the gentleman knows that. I do not know

whether he would admit it or not, but I know this to be true.

Mr. FULTON. Let us assume this, then: Is this bill worth considering, in your judgment? Does it have the right provisions in it? The gentleman has just now convinced a good many independent-minded persons here that it is the wrong sort of a bill; that it was through certain conniving in the committee that things were put in that should not have been put in.

Mr. SABATH. Well, I do not say "conniving." I would not be so harsh as to designate it as conniving.

Mr. FULTON. What would the gentleman call it?

Mr. SABATH. I would call it, as I say, yielding and compromising on matters that they could not help but yield to if they desired some legislation.

Mr. FULTON. Did the gentleman then depart from principle and yield to these pressures in his committee?

Mr. SABATH. No; I have not departed from principle. I still stand where I have been standing all these years and where I hope to continue to stand, for the people; to try to save them from unfair taxation and not give relief to those that can best afford to pay their decent share, the right share, especially in view of the fact that all corporations and industries are more prosperous, have greater profits even if they pay the taxes this bill provides for than ever before in the history of our country.

Lest I forget, Mr. Speaker, I ask unanimous consent that I may extend and revise my remarks and insert some statistics showing the great profits and benefits now accruing to the big interests of the nation.

The SPEAKER pro tempore (Mr. WALTER). Is there objection to the request of the gentleman from Illinois?

There was no objection.

THE GRAVY TRAIN REALLY ROLLED LAST YEAR

While most of the country was scrimping around trying to make ends meet last year, the executives of corporations which have to report top salaries to the Securities and Exchange Commission were doing all right, thank you. Here are the men who did best at the paymaster's window. In most cases their total take represents a combination of salary, bonus and stock. For instance, Charles E. Wilson, General Motors president who heads the list, received in 1950 according to SEC records \$201,300 in salary, \$363,795 in bonus and \$61,205 in stock. A little down the list is J. C. Dellinger, Pacific coast manager for the Houston, Tex., cotton brokerage of Anderson, Clayton & Co.; his salary was only \$10,000, but he got a bonus of \$458,271.

	Total
Charles E. Wilson, General Motors	\$626,300
Albert Bradley, General Motors	541,425
Crawford H. Greenewalt, du Pont	539,550
Marvin E. Coyle, General Motors	526,100
Harlow H. Curtice, General Motors	526,100
J. C. Dellinger; Anderson, Clayton	468,271
Eugene G. Grace, Bethlehem Steel	464,321
Ronald K. Evans, General Motors	446,825
Louis C. Goad, General Motors	441,100
Frederick G. Donner, General Motors	441,070
Angus G. Echols, du Pont	384,100
Arthur B. Homer, Bethlehem Steel	381,932
Dr. Allan B. DuMont, T-V manufacturer	364,289
Edward R. Godfrey, General Motors	346,300
J. F. Drake, Gulf Oil	343,060

	Total
Henry B. du Pont (du Pont)-----	\$323,590
Walter J. Beadle (du Pont)-----	323,200
Walter S. Carpenter (du Pont)-----	323,200
J. Warren Kinsman (du Pont)-----	323,200
William H. Ward (du Pont)-----	323,150
Roger Williams (du Pont)-----	323,150
Walter Dannenbaum (du Pont)-----	323,150
Seton Proter (National Distillers)	302,206
John E. Bierwirth (National Dis-	
tillers)-----	302,206
G. W. Mason (Nash-Kelvinator)-----	300,832
Stewart J. Cort (Bethlehem Steel)	299,547
Frederick A. Shick (Bethlehem	
Steel)-----	284,547
T. M. Girdler (Republic Steel)-----	279,166
S. A. Swensrud (Gulf Oil)-----	275,000
John J. Schumann (General Mo-	
tors)-----	271,200
Norborne Berkeley (Bethlehem	
Steel)-----	269,547
C. M. White (Republic Steel)-----	258,333
Spyros P. Skouras (Twentieth Cen-	
tury Fox)-----	252,430
Albert K. Chapman (Eastman	
Kodak)-----	249,850
Paul M. Hahn (American Tobacco)	227,269
Thomas J. Hargrave (Eastman	
Kodak)-----	225,181
Charles R. Hook (Armco Steel)-----	223,381
W. W. Sebald (Armco Steel)-----	221,710
Stanley C. Allyn (National Cash	
Register)-----	212,500
James A. Gray (R. J. Reynolds To-	
bacco)-----	210,000
Harry C. Crawford (Bethlehem	
Steel)-----	202,161
David Sarnoff (RCA)-----	200,000
Roy Fruehauf (Fruehauf Trailer)---	194,375
Walter P. Paepcke (Container	
Corp.)-----	190,000
S. S. Nueman (Publicker Indus-	
tries)-----	175,000
Richard J. Boylan, James R. Coon,	
John A. Crowe, Preston L. Fowler	
(American Tobacco) (each)-----	156,292
Frank Folsom (RCA)-----	154,583
Ralph L. Gray (Armco Steel)-----	151,625
Frank Stanton (CBS)-----	151,597
W. Alton Jones (Cities Service)---	151,290
Sosthenes Behn (IT&T)-----	150,795
Royal Little (Textron)-----	150,645
Hiland G. Batcheller (Allegheny	
Ludlum)-----	150,000
John H. Hinman (International	
Paper)-----	150,000
Vincent Riggio (American Tobacco)	148,671
Edward R. Murrow (CBS)-----	135,086
William H. Hobbs (Coca-Cola)-----	134,933
William S. Paley (CBS)-----	100,000

PROFITS GUSH TO NEW HIGHS FOR OIL FIRMS

Up, up, up—like a gushing oil well—go the profits of the big oil companies. This year's profits of Standard Oil (New Jersey) are running 82 percent above 1950 figures. Texas Co. profits are up 71 percent. Socony-Vacuum's have increased 68 percent.

Take a look at these figures. They show how much oil profits have increased from the first 3 months of 1950 to the same period this year.

	Percentage increase in profits, 1950 to 1951
Standard Oil (New Jersey)-----	82
Texas Co.-----	71
Standard Oil (California)-----	52
Gulf Oil-----	23
Cities Service-----	25
Phillips Petroleum-----	60
Houston Oil-----	83
Socony-Vacuum Oil-----	68
Skelly Oil-----	28
Sinclair Oil-----	38
Standard Oil (Ohio)-----	68
Continental Oil-----	68
Standard Oil (Indiana)-----	86
Tide Water Oil-----	50
Union Oil of California-----	250

	Percentage increase in profits, 1950 to 1951
Sunray Oil-----	100
Pacific Western Oil-----	300
Mid-Continent Petroleum-----	72
Ohio Oil-----	14
Richfield Oil-----	95

GIFT TO OIL MEN

While profits of oil companies keep mounting, the House Ways and Means Committee makes a \$75,000,000 tax gift to oil promoters.

On May 4, the committee refused to close the loophole that allows oil firms to subtract 27½ percent of their income each year before they figure their taxes.

The idea is that wells are worked out finally. The oil boys can pay for a well in 4 years through tax write-offs—forever. That is called a "depletion allowance."

Mr. SABATH. I sympathize with the chairman of the Committee on Ways and Means because he was in the same position that I have frequently found myself in. He was obliged to give way, but I feel from what he stated before the committee, and from what the gentleman from Tennessee [Mr. COOPER] stated, that an honest effort was made to eliminate some of the loopholes, to increase the rates in the higher brackets and reduce those in the lower, and thus bring in a stronger bill. But I cannot understand, for the life of me, when the Government needs additional revenue to carry on our defense program, especially due to the greatly increased costs for which these interests are responsible, why these big interests should not pay their fair share of the burden. As General Marshall stated a few days ago, it will cost the Government over \$7,000,000,000 more than was expected because of the increase in the cost of material and all other things that are required for the defense of our Nation. I am amazed, in view of the fact that these increases go into the pockets of these interests, that they should not be made to pay their proportionate share.

Of course, I have no objection to the increase of 12½ percent on personal incomes, but I do not think this same rate should apply to those with lower incomes. I think it should apply only to those who are earning above \$10,000. Now even the man who earns \$3,000 or \$4,000 a year does not really live; he merely exists, because of the high cost of living brought about by these various combinations, trusts, and corporations that are sitting up nights figuring out how they can secure higher prices and greater profits on everything they produce.

Mr. McCORMACK. Mr. Speaker, will the gentleman yield?

Mr. SABATH. I yield to the gentleman from Massachusetts.

Mr. McCORMACK. The gentleman has referred to the high cost of living and controls. I think the people of the country should realize that unless the Congress acts on or before June 30 controls will no longer exist. The present law expires on June 30. The President in a very able and courageous address to the country a few nights ago presented to the people of the country what the situation is. The responsibility now rests upon the Congress of the United States.

If controls are off for 1 day only it will cause irreparable harm not only to the consumer but to the business of our country, whether small or large, whether controlled or independent, and to our entire economy, and in particular to the expenses in connection with emergency legislation relating to our defense. The situation is very, very acute. Congress has only about 10 days more to act. Something must be done, and if nothing is done the responsibility rests upon Congress.

Mr. SABATH. I thank the gentleman for the observation.

In that connection, let me call your attention to the fact that when rent controls went off 3 years ago, for a few weeks, immediately all the hotel and apartment building rents went up from 25 to 100 percent. Consequently I feel that if something is not done in time the same thing will occur now. What applies to that applies to everything else. I have advocated price control. It is absolutely necessary to stop inflation and at the same time bring down the ever-increasing cost of living. It is hard for me to understand, as I said before, how it is possible under present conditions for people who earn only \$50 a week, to live. They do not live, they merely exist. Therefore, I feel that they should not be burdened with additional taxation.

Mr. YATES. Mr. Speaker, will the gentleman yield?

Mr. SABATH. I yield to the gentleman from Illinois.

Mr. YATES. Rent controls on the apartment and residential hotels are still necessary in the city of Chicago, are they not?

Mr. SABATH. There is no question about it, not only in Chicago but in all large cities. As chairman of a special committee that investigated these conditions 15 years or so ago, I found that many of the people who own these apartment buildings and hotels acquired them at 10, 15, and 20 cents on the dollar. They are the ones that are spending thousands of dollars for lobbying here against housing and rent control, trying to bring about the elimination of control of these apartment buildings and hotels. They are trying to make a hotel out of every apartment building. God only knows what will happen to their tenants if rent controls are taken off.

Mr. SIMPSON of Pennsylvania. Mr. Speaker, will the gentleman yield?

Mr. SABATH. I yield.

Mr. SIMPSON of Pennsylvania. The gentleman is urging us to support a tax bill which includes provisions which increase the cost of living of the taxpayer with a very low income. How does he justify that increase while complaining about the increases in the cost of living?

Mr. SABATH. I am doing so because there is nothing else I can do as I stated earlier in my remarks. Under present conditions the Government needs the revenue for defense purposes. Naturally I am not here to say that the man of low earning power should not pay his proportionate share of taxes. He, too, owes something to his country. But I feel that those who can best afford to pay should be made to pay and that this

burden should not be loaded unfairly on those who can least afford to carry the burden.

Mr. MILLS. Mr. Speaker, will the gentleman yield?

Mr. SABATH. I yield.

Mr. MILLS. As I understand my friend, the gentleman from Illinois, he is not finding fault with the provisions contained in the bill H. R. 4473. He does find fault because certain provisions, which he supports, are not included in the bill. Am I right?

Mr. SABATH. You are right with one exception. As the gentleman from Virginia [Mr. SMITH] called to my attention, the bill provides for reductions in certain taxes under present law in the amount of some \$390,000,000. I cannot understand why that was necessary. This action seemed entirely unwarranted. Oh yes, there is the provision exempting from the 20% retail tax baby oils, powders, and lotions, which is all right, but this represents but a very small portion of the \$390,000,000.

Mr. MILLS. The gentleman is in favor, however, of the provision in the bill which exempts from the capital gains tax the so-called homestead, when sold?

Mr. SABATH. To be perfectly candid, the reported bill containing 153 pages and the report containing 152 pages were not available to me until yesterday morning. I labored over them until 3 a. m. this morning and I frankly confess that I am not thoroughly familiar with all of its provisions now. It would require a much better and much abler man than I to thoroughly digest this massive bill in so short a time. However, in answer to the gentleman from Arkansas I will state that if this provision creates an additional tax evasion loophole for the big real estate operators who sell and resell homes, naturally I could not be for it.

Mr. MILLS. The committee took the position on that particular provision that it was in the interest of defense workers who had to go from one city to another to find defense employment.

Mr. SABATH. If it applies to that group, I am satisfied.

There are other provisions in the bill which are in the right direction, although not as many as I would like to see.

Mr. KEATING. Mr. Speaker, will the gentleman yield?

Mr. SABATH. I yield.

Mr. KEATING. The gentleman has expressed dissatisfaction with one provision and, as I understand him, he is also dissatisfied with this additional taxation on those with incomes under \$10,000. Those are very vital provisions of the bill, and I ask the gentleman why, then, he does not support an open rule on this bill, so that the gentlemen can offer amendments to correct those provisions of which he complains.

Mr. SABATH. As complicated as this bill is, I fear that an open rule would create a condition whereby we would weaken the bill instead of improving it, and there is always the danger that many Members on your side would vote to relieve those with great incomes and add to the burdens of those with low incomes, if an open rule were brought in.

Your party would not be in such an unfavorable position today where it is obliged to rely on false statements and ridiculous and unjustifiable attacks and half truths from time to time with which you hope to becloud the real issues and thus mislead a majority of the people into voting with you in 1952. I still have great faith, however, in the immortal words of that great American, Abraham Lincoln, that you can fool some of the people some of the time but not all of the people all of the time.

Furthermore, when the entire membership of the Committee on Ways and Means belonging to your party, and through their representatives appearing before the Committee on Rules, plead for a closed or gag rule, how could I refuse to comply with their request when I did not have the support of your Republican members of my committee?

Mr. KEATING. The gentleman does not always agree with the members of my party.

Mr. SABATH. No; I do not. I wish I could. I frequently invite your party to agree with me, to vote for things that are in the interest of the masses and not for the classes as you invariably do.

Now, I cannot yield any further, because I am obliged to conclude my remarks.

How much time have I consumed, Mr. Speaker?

The SPEAKER pro tempore (Mr. WALTER). The gentleman has consumed 24 minutes.

Mr. SABATH. Oh, I am sorry.

I reserve the balance of my time, and now, with pleasure, I yield 30 minutes to the gentleman from Ohio [Mr. BROWN].

Mr. BROWN of Ohio. Mr. Speaker, I yield 4 minutes to the gentleman from New York [Mr. OSTERTAG].

Mr. OSTERTAG. Mr. Speaker, I ask unanimous consent to speak out of order, and to revise and extend my remarks.

The SPEAKER pro tempore. Is there objection to the request of the gentleman from New York?

There was no objection.

Mr. OSTERTAG. Mr. Speaker, America is indeed fortunate to have a man of James W. Wadsworth's great stature and wisdom as a member of the National Security Training Commission. No man in this country has dedicated himself with greater devotion or understanding to the establishment of universal military training than has former Senator Wadsworth, and no man could have been chosen to serve on this vitally important commission in whom the country would have more confidence. His appointment, as well as those of other members of the Commission by the President, will be universally applauded.

For more than 50 years, Senator Wadsworth has been convinced of the necessity to establish a system of universal military training in this country, and throughout the 30 years he served in the Congress of the United States he pressed continually for the enactment of legislation to establish such a program.

His interest in UMT stemmed from knowledge, conviction, and experience. As a young man, he answered the call to

arms in the Spanish-American War, enlisting in Battery A, Pennsylvania Field Artillery, and with his own eyes he saw the tragic, needless, slaughter of his comrades on the island of Puerto Rico, because they lacked the military training essential to their task. He often said of that war, that the enemy was nothing, but the greenness of American troops was sickening.

Throughout the early years of this century he studied the feasibility of a universal military training program for this country, and when, in World War I, he saw a repetition on a greater scale of the needless casualties caused by insufficient training, his determination to work for a permanent peacetime training program was further strengthened.

As chairman of the Senate Military Affairs Committee, Senator Wadsworth sponsored a measure in 1920 which would have inaugurated such a program, and throughout the remaining years of his service in the Senate and in this House, he sponsored or vigorously supported measures looking toward this end.

Early this year when the march of Red imperialism made it abundantly clear that America must rebuild and maintain her armed strength on a permanent basis, Senator Wadsworth, then in retirement, again pressed for the establishment of a universal military training program.

In a cogent letter sent to every Member of this House, he deplored our costly and tragic policy of "commencing to get ready to fight after the fight has started." He equally deplored, however, the alternative of creating and maintaining a tremendous standing military force, pointing out that such a policy would exact two fearful penalties—a crushing financial burden, and the creation of a dominant military cast which would eventually go far toward Prussianizing the country.

The only sound alternative, he pointed out, is a great civilian reserve, trained in time of peace and ready to answer the call if it comes. This, he said, is the sound way, the American way, the democratic way.

I am frank to say that I believe Senator Wadsworth's persuasive reasoning did as much as any one effort throughout the highly controversial debate on S. 1, to get the problem back to fundamentals and to win approval for peacetime military training in what is now Public Law 51.

No one in America regards the establishment of universal military training lightly. It is a break with all our history and tradition, and it will require vigilance and leadership of the highest order to administer the program in such a way as to insure and maintain our armed strength at the necessary level of effectiveness without encouraging militarism and reckless military adventures.

In launching this tremendously important program, the President could not have chosen a man better fitted to help guide it and keep it firmly in the desired course than James W. Wadsworth, of New York. With the National Security Training Commission under such auspi-

cious leadership, we can go forward with the assurance that America will keep the faith with history and the future, and with freemen everywhere.

Mr. BROWN of Ohio. Mr. Speaker, I yield myself 15 minutes.

(Mr. BROWN of Ohio asked and was given permission to revise and extend his remarks.)

Mr. BROWN of Ohio. Mr. Speaker, I have listened with a great deal of interest and much attention to my venerable friend and the distinguished chairman of the Rules Committee in his nonpartisan explanation of this resolution and I hope I may be able to speak on this measure with the same objectivity he has displayed in discussing it.

As the gentleman from Illinois has advised the House, this resolution provides for the consideration of the bill, H. R. 4473, a measure designed to increase the revenues of the Government, under 2 days of general debate. It provides further that on the second day of the general debate on the bill the committee shall conclude its labors at 4 p. m., at which time it shall rise and report the measure back to the full House for a vote thereon.

I understand it is the desire of the leadership of the House that the bill will not be called up for general debate until tomorrow, Thursday. Such action means, of course, that we will vote on this bill, if the rule is adopted, at 4 p. m., or shortly thereafter, on Friday.

This proposed rule also provides that the bill shall not be open for amendment except such amendments as may be submitted to the House by direction of the Committee on Ways and Means.

This is, of course, a closed or gag rule, because it prevents any Member of the House of Representatives from offering an amendment to the new tax measure unless the amendment has first been approved by the majority action of the Ways and Means Committee. The adoption of this rule means that on this great and important measure, a bill which it is estimated will raise more revenue than any other tax measure ever brought before the Congress of the United States, at least 410 Members of this House will have no opportunity to express themselves through the offering of or the voting on any amendments. It means that the House of Representatives, all of the 435 Members, the elected Representatives of the people, must vote "yea" or "nay" on this bill in its entirety. We must swallow it all or we must refuse to swallow any of it. Like the German Reichstag under Hitler, that will be the position in which we find ourselves if this rule is adopted.

It means something more than that. It means, in fact and in actuality, inasmuch as the Ways and Means Committee is made up of 25 members, that 13 members, a bare majority of the Ways and Means Committee, can and probably will be, in many instances, writing the tax laws of this Nation which will affect our national economy as no other legislation can.

I understand there has been, within the Ways and Means Committee, con-

siderable division of opinion, and that often a section or provision of this tax bill was adopted by a bare majority of the committee, or a single vote perhaps, 13 to 12 or 11 to 10, or by a 2 or 3 vote margin.

I have the highest respect and regard for the Ways and Means Committee of the House, and for each and every member of it. The distinguished gentleman who heads that committee as its chairman, Hon. ROBERT L. DOUGHTON, has the respect, the love, and the admiration of every individual in this House. I am not so sure that he can personally agree with or approve every provision and section of this tax bill. I am certain he did not have his way in writing this bill. I am not sure that any one member of the committee had his way preparing this legislation. These men are all distinguished men—these members of the Ways and Means Committee. They are able and capable, yet they are not infallible or omnipotent. It is just possible they may be wrong now and then. They have had wide and long experience in drafting and writing tax legislation, but it is not at all certain that no other Member of the House has not had similar experience with taxation matters, or with the problems of business which arise as a result of the tax bills we pass. In fact, I feel sure there are other Members of this body, beside those who sit on the Ways and Means Committee, who may have as good judgment as theirs as to tax policy, and as to what should or should not be done in connection with tax legislation. So I question the wisdom of adopting a rule which will say to all the membership of the House that none shall have the right to offer, or to consider, or to vote on an amendment to this bill; must accept the word of the majority of the Ways and Means Committee and vote for or against the bill the committee offers in its entirety. By such action we certainly are not furthering the democratic process for which we have been fighting throughout the world.

We discussed this bill rather thoroughly in the Committee on Rules. It was brought out in our committee hearings on this bill that while the Constitution provides all revenue measures must originate in the House, that as a matter of fact very few of the tax bills enacted into law in recent years have been anything like the original bills as they passed the House. Tax bills have constantly and consistently been put through the House under a closed or gag rule, with few exceptions, only to go over to another body where they have been rather completely rewritten, and remember, please, that over in the other body, where they have 96 Members, they do not have any closed or gag rules. Each and every Member of the other body can offer any amendment that he or she may desire, have it debated thoroughly, and finally voted upon. And, I am not so sure but that the membership of this House, while it is larger, is not just as able, and just as capable, and just as much to be trusted, in the enactment of tax legislation—because after all tax legislation is

a matter of judgment and a matter of policy—as are the Members of the other body.

The fact of the matter is, and I want to be very frank and not critical, I know many Members of this body whose judgment I would rather trust and follow than I would the judgment of many Members of the other body. Now, what do I mean by the question of judgment? Well, for instance—as an example—in this bill a tax is levied on electric razors, but there is no tax levied on safety razors. Seemingly, there was no Member on the committee from the State of Connecticut. Now, that is a matter of judgment, or perhaps conscience, and certainly a question of policy, as to whether the Congress wants to say if a man shaves with an electric razor he should be taxed and if he shaves with a safety razor he should not be taxed. I feel sure the full membership of the House could be trusted to pass on such a great issue as that as well as could the Committee on Ways and Means.

But, let me discuss the rule. When this bill came before the Committee on Rules the Ways and Means Committee did request, as the gentleman from Illinois has so well explained, a closed or a gag rule, and that has been the rather usual request by past Ways and Means Committees. But when it came to the question approving the gag rule it was finally adopted by a very, very, very close vote in the Rules Committee. While I shall not mention names, I think I am free to say to the House, because we on the Committee on Rules are your servants, that the vote on this rule was first a tie, and then, finally, one of our Members very, very reluctantly, as he expressed it, voted to report out the rule before us.

Mr. COX. Mr. Speaker, will the gentleman yield?

Mr. BROWN of Ohio. I yield to the gentleman from Georgia.

Mr. COX. The gentleman recalls what took place with respect to the taking of the vote. Is it not the gentleman's recollection that the vote was handled in such a way as to create a situation whereby the chairman would have to take—

Mr. BROWN of Ohio. I did not mention the chairman's name.

Mr. COX. I know, but the gentleman spoke of a tie vote. Does the gentleman not recall that that was the result of a play on the part of the Members to create just the sort of a situation that he described?

Mr. BROWN of Ohio. No; I do not think it was the result of a play to create a situation. Since the gentleman has discussed the question and brought out and mentioned the chairman's name, I presume everyone in the House knows that it was the chairman who cast, very reluctantly, the vote to break the tie and report this rule. I do recall that the three Republican members present voted against the rule; that one member of the majority voted against the rule; that two members of the majority did not vote at first, and that finally one, the chairman, did vote to break the tie. But, I did not

want to discuss that. I just wanted to bring this problem to the attention of the House.

Mr. COX. I do not want to pursue the inquiry, because it would involve certain people in the committee which I would rather not do. But, will the gentleman yield on another point?

Mr. BROWN of Ohio. I yield.

Mr. COX. The gentleman has pointed out the objections that lie to the granting of a closed rule on any kind of a bill. In spite of the fact that these objections are valid, is it not the opinion of the gentleman that on a bill of this character it could only, with reasonable safety, be considered under a closed rule? If the action of the committee had depended upon the vote of the gentleman speaking here as a responsible Member of this body, would he not have favored the granting of a closed rule?

Mr. BROWN of Ohio. I will answer the gentleman very frankly that I would have voted against the closed rule, because I do not believe in granting a closed or a gag rule on a bill which I am personally convinced is a bad measure. I am glad the gentleman from Georgia has brought up that question. The gentleman from Ohio has voted for reporting and has supported some closed or gag rules in the past. I have even supported closed or gag rules on tax bills. But there is a great difference in tax bills.

I recall that in the Eightieth Congress, under Republican leadership, we brought in a tax bill under a closed or gag rule. I supported that rule. I am sure my friend, the majority floor leader, is very anxious to make comment on this subject. So I have a copy of the debate at that time which I would love to read to you, but first, before I read it, I want to reiterate, if I may, to the Members of the House that in the Eightieth Congress we had a very, very unique and unusual situation. One that had not existed for a quarter of a century—ah, yes; a very peculiar, a very unique and unusual situation. For the first time in a quarter of a century we had before us here in the House a bill to reduce taxes, not to increase them.

Mr. MILLS. Mr. Speaker, will my friend yield for a correction?

Mr. BROWN of Ohio. I cannot yield now.

Yes; for the first time in a quarter of a century we had a bill that actually reduced the tax burden on all the taxpayers of this country. Previously we did have one bill that took off the wartime excess-profits tax, but we did not before have a bill reducing taxes on the little fellow.

I think it is an interesting bit of history that even the gentleman from Illinois took the floor as other than minority leaders took the floor in support of our gag rule because everybody in the United States was for tax reduction. The Republican Eightieth Congress cut the taxes on the American people by that bill alone by something like \$5,500,000,000. We reduced the tax on the small taxpayers by a larger percentage than we did on other groups or classes of taxpayers. The fact is that by that bill we took 7,000,000 low-income Americans com-

pletely off the tax rolls. We also increased the personal exemption for individuals from \$500 to \$600 to help the low-income taxpaying groups in this country.

By the way, no one has seen fit to repeal that particular section of the law yet. All this was done in addition to balancing the budget. On top of all that we made substantial payment on the national debt. So that was an unusual situation as well as an unusual bill. That was a bill in which all of us could join in reducing taxes. I know some people objected to and finally voted against the bill. So I am going to watch with a great deal of interest whether these same persons, who objected to reducing taxes back in the Eightieth Congress, and to lowering the tax burden on the American people, will now vote for increasing the tax burden on the American people.

I realize, as well as anyone else, the great need of the Government for additional revenue. We have to have revenue from some source, because it has become apparent to all of us that we are not getting cooperation from any other branch of the Government in our attempts to hold down the cost of government.

So we will need additional revenue; but, in my opinion, this bill is not the right way to get it. The gentleman from Illinois, my good friend, has said that in this bill there are many provisions with which he cannot agree. Certainly there are many provisions in this bill with which I cannot agree. In fact, I have yet to make up my mind, as other Members of the House have to do, whether a piece of legislation, which is never all white or all black—and is usually a mottled gray—has more good than bad in it, and I should vote for it, or whether it has more bad than good in it, and I should vote against it. So I say to you, in my opinion, this bill has more bad in it than it has good, and I am going to vote against it, in the hope that the Committee on Ways and Means will bring in a better price of tax legislation in the near future.

Mr. COX. Mr. Speaker, will the gentleman yield?

Mr. BROWN of Ohio. I yield.

Mr. COX. Referring to the basis of the gentleman's objection to the bill, does it raise too much money or too little money?

Mr. BROWN of Ohio. It certainly does not raise any more than will be spent by this administration, I can guarantee the gentleman. However I am hoping that whatever legislation we may pass will raise a sufficient amount of revenue to balance the budget.

Mr. COX. There is no disagreement with the gentleman on that, but is it not necessary to raise the revenue which the bill promises to raise?

Mr. BROWN of Ohio. I have just answered the gentleman.

Mr. COX. Is it not necessary to raise the revenue which the bill promises to raise, in order not to further indulge in deficit financing?

Mr. BROWN of Ohio. I have just said to the gentleman I believe we do have to raise additional revenue. I am

opposed to deficit financing. But when we raise additional revenue, I want to do it fairly. I want to do it on a basis which is just, and which will not work a hardship on certain classes and groups of our people, as this bill will.

Mr. HALLECK. Mr. Speaker, will the gentleman yield?

Mr. BROWN of Ohio. I yield.

Mr. HALLECK. In view of the fact there seems to be very considerable sentiment on both sides of the aisle that there are many highly objectionable features in the bill, why would it not be the better part of wisdom to recommit the bill to the committee in the hope that the committee, acting as a whole, and as a committee of all its 25 members, rather than operating as a democratic majority, bring in a bill that will remove some of the objectionable features?

Mr. BROWN of Ohio. The gentleman has expressed that which I hope will happen. I hope we may be able to recommit this bill and bring in a more balanced and fairer measure—a bill that can raise the new revenue which is needed, without taking away the rights and privileges—and some necessities of life, if you please, of some of the people, who are so hard hit by the bill.

Mr. MILLS. Mr. Speaker, will the gentleman yield?

Mr. BROWN of Ohio. I yield.

Mr. MILLS. Because I have such a high opinion of the gentleman's ideas, I would like for him to give us a bill of particulars, so if the bill is recommitted we may know how to bring one out to raise the \$7,500,000,000 of revenue.

Mr. BROWN of Ohio. It took the gentleman and his colleagues almost 6 months to bring out this monstrosity, and I am sure I can write a tax bill, at least no worse than this, in less than 6 months.

Mr. MILLS. Oh, no—I want the gentleman to give us something good.

Mr. BROWN of Ohio. I can think of several things you can do, if you want to know. You might take another look at the withholding tax on dividends provision which takes away from the old people—the aged people, if you please—the ones who are not required to pay taxes, a part of their income which they need to buy food and holds it for a year before it is returned to them. As some in the Department of Internal Revenue rather blatantly say, "We will gain \$35,000,000 to \$40,000,000 a year in taxes from people who do not ask for small tax refunds." These are the very funds our old people need so badly—and to which the Government is not entitled. Why take such money away from the aged? That is one little thing you can do, sir. Think that one over, and later I will gladly give you other suggestions as to what can be done to help, after we recommit this bill to your committee.

Mr. MILLS. That is not raising revenue. I asked the gentleman to give us an idea of how to raise it.

The SPEAKER pro tempore. The time of the gentleman from Ohio [Mr. BROWN] has again expired.

Mr. SABATH. Mr. Speaker, I yield to the gentleman from Virginia [Mr.

HARDY] to make a unanimous-consent request.

COMMITTEE ON EXPENDITURES

Mr. HARDY. Mr. Speaker, I ask unanimous consent that the Subcommittee on Government Operations of the Committee on Expenditures may be permitted to sit tomorrow during general debate.

The SPEAKER pro tempore. Is there objection to the request of the gentleman from Virginia?

There was no objection.

REVENUE ACT OF 1951

Mr. SABATH. Mr. Speaker, I yield to the gentleman from New York [Mr. FINE] for a unanimous-consent request.

Mr. FINE. Mr. Speaker, I ask unanimous consent to revise and extend my remarks at this point in the RECORD.

The SPEAKER pro tempore. Is there objection to the request of the gentleman from New York?

There was no objection.

Mr. FINE. Mr. Speaker, I would like to make the point that since the tax bill now before us is being considered under a closed rule, there will be no opportunity to offer an amendment during the debate except through the committee. I therefore address these remarks to the committee and respectfully urge them to amend the bill to provide the same tax exemption for governmental pensioners now provided for social-security pensioners and for railroad pensioners. The omission of this important provision has resulted in the following inequitable situation:

Consider the tax problem of three separate individuals doing the same type of work, one employed in private industry, the second by a railroad, and the third by a municipality. The first and second gain a tax exemption of \$1,800 and the third no tax exemption at all on retirement. The first two take home \$1,800 in pension pay; the third only \$1,395 in pension—all income being the same.

The unfairness of the situation is even better pointed out by the following forceful illustration: Where we have a privately owned bus line which has been taken over by a municipality, the employees of said privately owned bus line already retired and receiving social security, or who retire just before unification, are given a tax exemption, but those who become part of the municipal scheme and later retire as members of the municipal pension system do not get the tax exemption.

What difference can there be between a social-security pensioner, a railroad pensioner, and a governmental pensioner? None, of course. And yet, the committee has rejected a provision sponsored by our colleague and member of the committee, the gentleman from New York, the Honorable EUGENE KEOGH, which would have eliminated this rank discrimination. What justification can there be for this differentiation?

The fight to put governmental pensioners on the same plane with social-security pensioners is being led by Ralph L. Van Name, the fiery secretary of the New York city retirement system who has lined up in support of the program

the leading civil service and public employee organizations as follows:

New York State Joint Council Government and Civic Employees Organizing Committee, CIO.

The Civil Service Employees Association.

Civil Service Technical Guild.

Civil Service Forum.

The National Education Association.

The Congress of Industrial Organizations.

New York and New Jersey Retired Teachers Associations.

National Association of Retired Teachers.

Retired Patrolmen's Association.

In addition to these organizations, organized Government employee groups and retired employee associations in California and Ohio and elsewhere are mobilizing for action on the controversy.

Much credit is due not only to Mr. Van Name, but also Mr. Jesse B. McFarland, president of the Civil Service Employees Association of the State of New York, Mr. Philip F. Brueck and Mr. Raymond E. Diana, chairman and executive secretary of the New York State Joint Council of the Congress of Industrial Organizations, respectively, and the many other officials of the employee groups for their untiring efforts to bring about equality in treatment.

My interest in this legislation stems from my many years of active identification with these men and organizations and I am grateful to them for supplying me with information and data in the preparation of this statement. An analysis of said information and data supports the need for the adoption of the amendment.

First. Under the present income-tax bill, employees are taxed more if they retire from one of the 7,000,000 Federal, State, and city positions than if they retire under social security from one of the 45,000,000 positions in private industry. This is violently discriminatory.

Second. Pensioners are usually aged people. Income taxation of the aged forces continuance of aged employment to the detriment of youthful employment and advancement. Governmental pensioners, whose pension at one twenty-fifth of \$1,800, that is, \$72 for each year of 25 to age 65 are obliged to work seven additional years to age 72 to produce the \$522 Federal income tax which would leave them with the \$1,800 take-home pension available 7 years sooner to social security's untaxed \$1,800 pension. Governmental pensioners must work up to 7 years longer solely because of Federal discrimination against governmental pensioners in income taxation.

Third. The tax bill as presently written continues an unconscionable hardship upon old persons who have served their adult lives in Government employment, and offers an additional argument for those who claim that Government service is growing less attractive in relation to private industry.

Fourth. It has been suggested that by this method, governmental employees would be compelled to become part of the social-security system to gain the tax exemption now in the law—certainly

not a laudable way to treat the problem. If this be the motive, it amounts to an unfair trade practice and should be condemned. Furthermore, to force the many city and State employees into the Federal plan would be depriving them of all of the benefits of pension systems built up over many years of trial and error. The complexity of the change-over and the inherent difficulties, would make the transition much too difficult and costly.

Fifth. The place to derive taxes is from production. The time to derive pension tax income from the first bracket taxpayers is during their productive years. Any first bracket taxpayer—and there are millions of them—would prefer to pay more during his productive years, so as to be relieved of income taxation during his aged unproductive years. The Government would suffer no loss by using common sense in this matter. During his productive years, the taxpayer properly provides: (a) for his current needs, (b) for the current needs of the Government, (c) for the anticipated needs of his old age. If his successors do likewise as they would prefer to do, there will be no need to tax first bracket aged. Certainly, this is true within the \$1,800 area established for 45,000,000 industrial employees and ignored by Congress as to 7,000,000 governmental employees and pensioners.

Sixth. Income taxation of short-lived pensioners is robbery of the dying and their survivors. A pensioner does not receive an exact equal common total value. He receives less or more according as he lives a short or long time while retired. The short-lived pensioner who does not receive back even the capital value of his original pension contract is to be compelled by Government to give up, as 22½ percent income tax, that which is not income but part of his original capital. Both he and his heirs suffer by this injustice.

Seventh. Governmental pensioners who survive their expectation of life as at their retirement age, are scheduled to benefit from the forfeiture to the fund of the capital equities of short-lived pensioners. The only way first bracket wage earners may provide for costly survivorship in their eighties and beyond is by mutual consent at the outset to short-lived forfeitures to make possible long-lived payments if long life ensues. The Federal Government which provides tax free \$1,800 income to industrial pensioners does not merely tax governmental pensioners similarly situated. It taxes, on an annual income tax basis, inheritance received in annual installments by long-lived pensioners from short-lived pensioners—through retirement fund, of course. It is unprincipled and discriminatory to free industrial pensioners from all tax on \$1,800 pension and then to tax governmental pensioners on an annual income tax basis with that which is not annual income but annual installments of the inheritance by the long-lived from the short-lived through the retirement fund.

Eighth. The income which a Government employee earns is taxed as he earns it precisely as is the preretirement in-

come of employees in private industry who are covered by social security; taxation of governmental employees should cease at retirement as it does prior to social security retirement.

CONCLUSION

I suggest to the committee one of two proposals. Either that the bill be immediately amended to bring about even-handed justice in this regard or to agree to offer an amendment so that we, the Members of the House, may, by our votes, determine the question. By this method at least we can once and for all solve the problem of whether or no public employees are to be differently treated tax-wise.

(Mr. DOLLINGER (at the request of Mr. FINE) was given permission to extend his remarks at this point in the RECORD.)

Mr. DOLLINGER. Mr. Speaker, the proposed tax bill in its present form is unsatisfactory to me. I feel that there are glaring injustices which should be corrected. We should be given the opportunity to offer protection to the hundreds of thousands of persons who will be severely penalized by the bill as it now stands. I refer particularly to those sections which deal with individual income taxes.

A vast number of elderly people in this country must depend solely upon a small annuity or pension for their existence. Because of high living costs, they can afford nothing but the barest essentials now. Those persons should have the same protection enjoyed by other groups which are exempt under the law. For instance, social security benefits—and I am informed, railroad retirement payments, are exempt up to \$1,800 now. The persons receiving such exemptions are certainly entitled to them, but it is only fair that all persons dependent upon small annuities or pensions should have comparable exemptions. To continue to tax them is to cause them to suffer real hardship, and the existing discrimination is grossly unfair.

In my opinion, the proposed bill favors those who can afford to be further taxed and penalizes the little taxpayer—those in the low-income brackets who are already taxed to the limit and who find it increasingly difficult to support their families and themselves under present living costs. Under this bill, the greater burden of taxation will fall upon those who are now staggering under the tax load they carry while those to whom additional taxes mean no real sacrifice are not forced to carry their proportionate share of the load.

I join in the request of my colleague from New York and respectfully urge the Ways and Means Committee to offer the amendment during the debate which would make the new tax law fair and equitable to all.

Mr. BROWN of Ohio. Mr. Speaker, I yield such time as he may desire to the gentleman from Ohio [Mr. VORYS].

(Mr. VORYS asked and was given permission to revise and extend his remarks.)

Mr. VORYS. Mr. Speaker, I am opposed to this gag rule. During the 13 years I have been in Congress the Ways

and Means Committee has always demanded a gag rule for its tax bills. Their argument is that tax bills are so technical and any and all taxes are so offensive that the House does not have sufficient intelligence or courage to consider amendments to tax bills. I simply do not believe this. Our present tax laws certainly do not prove it, for everyone agrees that our laws are technically complicated and confusing and many of them unfair and unjust. They might have been better if the House membership had been given a chance to consider amendments. They could not be much worse.

I have seen a lot of long, complicated bills come to the floor under open rules. The committee in charge was able to defeat or to improve amendments which were improper or improperly drafted. Of course, the Ways and Means Committee, in asking for a closed rule, implies that the rest of the House should defer to its superior wisdom. I think that what has actually happened over the years is that the Ways and Means Committee has developed an inferiority complex and feels unable to defend its bills on the floor of the House.

The Republican minority on the Ways and Means Committee has filed minority views pointing out defects and needed amendments. I have not had an opportunity to study fully this bill and the majority and minority reports. I am certainly not going to tie my hands in advance of the debate and before I can study the whole bill, so as to keep myself from voting for necessary amendments. I am against this closed rule.

Mr. BROWN of Ohio. Mr. Speaker, I yield such time as he may desire to the gentleman from Connecticut [Mr. MORANO].

(Mr. MORANO asked and was given permission to revise and extend his remarks.)

Mr. MORANO. Mr. Speaker, I wish to deplore the 10-percent tax levied on electric shavers provided for in this revenue act by the Ways and Means Committee as discriminatory.

DISCRIMINATORY CHARACTER OF THE PROPOSED 10-PERCENT TAX ON ELECTRIC RAZORS

An independent survey by American Legion magazine reflects the type of razor currently used: Electric, 23.3 percent; safety, 81.3 percent; straight, 4.4 percent.

A similar recommendation was made by the Treasury Department with respect to excise taxes in the 1941 Revenue Act. It was reported out by the House Ways and Means Committee, passed the House, but was amended in the Senate to exclude electric razors. In order not to discriminate and not to create an unfair competitive situation, logic would impel the inclusion of all razors or none.

Senate Report No. 673 of the Seventy-seventh Congress states:

The House bill imposes a tax of 10 percent upon the manufacturers' sale of electric appliances. It was pointed out that the inclusion of gas and oil water heaters and cooking appliances created an unfair competitive situation. Consequently, these gas and oil appliances are included in the taxable category and are taxed at the 10-percent rate.

In a hearing before the House Ways and Means Committee—Seventy-seventh

Congress, first session, revised volume 1—Assistant Secretary John L. Sullivan spoke to the committee in a prepared statement appearing on page 50:

In the field of excise taxation it is proposed that a number of new taxes be imposed and the rates of some existing taxes be increased. We have endeavored to avoid excises which would fall on the basic necessities of life.

Any industry which sells 23 percent of the total volume must receive consideration.

In a similar statement, Colin F. Stam, of the Joint Committee on Internal Revenue, Taxation and the Ways and Means Committee, pages 82 and 87:

The Committee on Ways and Means has six fundamental tests of a sound manufacturing tax as stated in the following (Rept. 708, 72d Cong., 1st sess.) item 4 of the sixth item: "The tax must be imposed uniformly and without discrimination. * * * It was desired that each member of a competitive group base taxes upon substantially the same basis as competitors."

I believe it is obvious to the Members of this House that shaving is a basic necessity of life and that no single method, be it electric or manual, for removing whiskers from the face, should receive preference over any other method, particularly any one method, in excess of one-fifth of the total industry.

ESTIMATED REVENUE TO THE UNITED STATES GOVERNMENT

Assuming a tax of 10 percent at the manufacturers' level, it is conservatively estimated that the loss in income would be sustained by the exclusion of electric shavers from the current revenue act would not exceed \$2,000,000 in tax.

Eighty percent of the electric shavers in the United States are manufactured in Fairfield County, my congressional district. Consequently, I urge the Ways and Means Committee to amend the tax bill to include electric shavers together with heating pads already exempted as a basic necessity of life in the articles exempted from the 10-percent tax.

Mr. BROWN of Ohio. Mr. Speaker, I yield 3 minutes to the gentleman from New York [Mr. KEATING].

(Mr. KEATING asked and was given permission to revise and extend his remarks.)

Mr. KEATING. Mr. Speaker, traditionally tax bills are brought before us under a closed rule. That it has always been this way in the past is not enough for me. I recognize the practical considerations which have led this year and in previous years to the granting of a rule prohibiting any amendment to the bill. But I feel that these practical considerations have been somewhat exaggerated.

The argument is made that, if amendments are permitted, it will lead to unnecessarily prolonged debate. In the first place, this is an important bill, which deserves the most thorough consideration by the Members of the House. We are told that it represents the largest new tax levy which has ever been imposed on the American people. It reaches into every business and into every home. It touches everyone. No one escapes. For that reason, the House should work its collective will on this legislation before final adoption.

Secondly, it always lies with the membership to limit debate on amendments to the bill, if that course seems to a majority of the Members to be desirable. When viewed in the proper perspective, the so-called practical considerations which have led to a gag rule in the past on tax bills melt away pretty much into thin air.

Even if it be conceded that our course in adopting a closed rule in the past has been sound, these are not normal times. We have reached the point in this country where nearly every object and every activity falls under the hand of the tax collector. As we still further narrow the field of areas either untaxed or not taxed to the absolute limit, the more important becomes our obligation to see it to that those areas are not absorbed within the tax orbit without the most careful and thorough scrutiny and debate. There seems to me even greater reason for allowing an open rule, at least a partially open rule in the case of a tax-increase bill than exists in the case of a tax-reduction bill.

Both those who intend to vote for this bill and those who intend to vote against it should support the move to open the bill to appropriate amendments.

Those who are opposed to this measure, for the most part, concede that additional taxes are necessary in order to balance the Federal budget and finance our present effort to defend our country and make it secure, so far as possible, on a pay-as-you-go basis. Their objection is that this bill in important respects goes about the problem of additional taxes in the wrong way and will lead to inequities and unfair hardships and will increase rather than decrease inflationary pressures. Certainly this group opposed to the measure should welcome an opportunity to improve the bill in such a manner that it may in the long run have their support.

On the other side, the distinguished chairman of the Committee on Ways and Means and other spokesmen who support this measure, according to their public utterances, do so not with enthusiasm, but with faint praise. They concede, so far as I know without exception, that it is by no means a perfect measure and could be considerably improved. The only way to bring that about or to attempt to bring it about is now through amendment on the floor. This group should even more enthusiastically embrace the opportunity to improve the bill by amendment.

Let no one who votes for a closed rule to prevent any amendment to this measure be heard to claim, after voting for it, that he did so only as a last resort and because it was the only bill before us. As presently minded, I expect to support the final tax bill after the House has had an opportunity to work its will. I do not expect it will in all respects conform to my own wishes. Legislation simply does not work out that way. But what I do want to accomplish is to assist in seeing to it that any efforts to improve the bill are not eliminated through the technicality that amendments are not in order because of the nature of the rule we have adopted.

The vote on this rule will be nearly, if not quite, as important as the vote on the bill itself. Those who are completely satisfied that we have before us a bill complying in every respect with their wishes are justified in supporting a rule to prohibit amendments. Those who are not of that mind and who believe this bill could be improved should stand up and be counted against this effort to ram this bill through precisely in its present form.

(Mr. KEATING asked and was given permission to revise and extend his remarks.)

Mr. SABATH. Mr. Speaker, I listened to the remarks of the gentleman from Ohio [Mr. BROWN], who so adroitly stressed what he termed a "unique" revenue bill that the Congress passed in the Eightieth Congress in that it was a bill to reduce taxes—not to raise taxes. Yes, that was in 1946 or early in 1947, and there was every reason for passing such a tax bill because the war was over, with a change-over from military to civilian production, the cancellation of war contracts, and the stopping of huge expenditures for war materials, so it was but a natural sequence of action in effecting a reduction of taxes. The gentleman from Ohio strikingly failed to mention these facts and also the fact the legislation was so timed to have a political effect as they believed that would enhance the political fortunes of the Republican Party in the coming Presidential election. It was a tax-reduction bill all right, but the largest reductions went to the fattened war profiteers and the wealthy in the higher-income brackets, and those in the lower-income brackets were given a "sop" reduction of a few dollars, but, fortunately, the common people saw through the camouflage and returned a Democratic administration in the ensuing election. The gentleman from Ohio should have given all the facts with respect to that "unique" Republican tax-reduction legislation.

Mr. Speaker, reverting to the rule under consideration, it has been stated by me, and even by the gentleman from Ohio, that I endeavored to have a provision in the rule under which Members could offer amendments to the bill under certain limitations, but as consideration progressed in the Committee on Rules I realized that would be impossible to accomplish. I recognized the need for a revenue bill at this time and felt that I owed it to my country and to the House to bring about favorable action on the rule which is now before us. Mr. Speaker, I feel that under the conditions it is absolutely necessary that this rule be adopted and the bill be passed.

Mr. BROWN of Ohio. Mr. Speaker, how much time have I remaining?

The SPEAKER pro tempore. The gentleman has consumed all of his time.

Mr. SABATH. Mr. Speaker, I yield the balance of my time to the gentleman from Massachusetts [Mr. McCORMACK].

The SPEAKER pro tempore. The gentleman from Massachusetts is recognized.

Mr. McCORMACK. Mr. Speaker, for 10 years I served on the Ways and Means

Committee before being elected majority leader in 1940. With one exception, I have no recollection of any tax bill that came out of the committee during the years I was a member that was not considered by the House under a closed rule. The exception was in 1930, when the tax bill was considered under an open rule, and what happened on the floor on that occasion caused the responsible Members of both parties to recognize the practical situation that existed and the difficulty of writing a tax bill on the floor. You will remember that a very important part of that bill was stricken out, carrying with it some few billions of dollars, and members of the Committee on Ways and Means were meeting unofficially, picking out this tax, that tax, or the other tax, and coming into the House and proposing it. We all realize what happened on that occasion. With that exception, I have no recollection of a tax bill coming in other than under a closed rule and members of the Ways and Means Committee unanimously recommending to the Rules Committee that a closed rule be reported out in the consideration of a tax bill, no matter what their views might be on the bill itself, in whole or in part.

In the Eightieth Congress, the then chairman of the Committee on Rules, the gentleman from Illinois [Mr. ALLEN], in reporting the rule, said:

This is a closed rule providing 2 days of general debate on the tax bill. We can expect the same hue and cry that is always sent up when a closed rule is reported on a tax bill. The Democrats know as well as I do that a tax bill cannot be brought up under any other kind of rule, but they are committed to a policy of obstruction to Republican-sponsored measures.

I do not, of course, agree with the latter statement, because we always supported good measures recommended by a Republican President, but I have very, very vague recollection as to any good one that ever was recommended during my 23 years, because the only Republican President we have had during my term of service was former President Herbert Hoover. Hoover was a good man, but unable to grasp the problems of a nation enveloped in a great economic conflagration; a man I respect, but a man who had no vision, unable to look into the future; a man who thought only of the past; a man whose leadership was that of a status quo nature. So the only legislation that I have any recollection of recommended by a Republican President was the kind that was geared to an economy of 1875, instead of an economy of those days of 1928 to 1932.

The gentleman from Ohio [Mr. BROWN] and the gentleman from Illinois [Mr. HALLECK] are two of the most adroit politicians on the Republican side of the House, and I will say in both branches of the Congress. I will include both branches because the Republicans have none over on the other side. They referred to the fact that the Eightieth Congress reduced taxes and that that was the first time there was a reduction of taxes on individuals. However, in 1945 we reduced taxes on individuals when we repealed the excess-profits tax.

We made a mistake at that time by repealing the excess-profits tax too quickly. The Eightieth Congress tax bill unbalanced the budget. The Eightieth Congress Republican tax bill was a corking plan for the wealthy few at the expense of the many.

Mr. BURNSIDE. Mr. Speaker, I make the point of order that a quorum is not present.

The SPEAKER pro tempore. The Chair will count. [After counting.] Two hundred and thirty Members are present, a quorum.

Mr. SABATH. Mr. Speaker, I ask unanimous consent that all Members may have five legislative days in which to extend their remarks on the rule just considered.

The SPEAKER pro tempore. Is there objection to the request of the gentleman from Illinois?

There was no objection.

Mr. SABATH. Mr. Speaker, I move the previous question on the resolution.

The previous question was ordered.

The SPEAKER pro tempore. The question is on the resolution.

The question was taken; and on a division (demanded by Mr. MILLER of Nebraska) there were—ayes 98, noes 98.

The SPEAKER pro tempore. The Chair votes "aye."

Mr. FULTON. Mr. Speaker, I object to the vote on the ground that a quorum is not present, and make the point of order that a quorum is not present.

The SPEAKER pro tempore. The Chair will count. [After counting.] Two hundred and nineteen Members are present, a quorum.

So the resolution was agreed to.

A motion to reconsider was laid on the table.

REAFFIRMING THE FRIENDSHIP OF THE AMERICAN PEOPLE FOR ALL THE PEOPLES OF THE WORLD

Mr. RIBICOFF submitted the following conference report and statement on the concurrent resolution (S. Con. Res. 11) reaffirming the friendship of the American people for all the peoples of the world, including the peoples of the Soviet Union:

CONFERENCE REPORT (H. REPT. No. 632)

The committee of conference on the disagreeing votes of the two Houses on the amendment of the House to the concurrent resolution (S. Con. Res. 11) entitled "Concurrent resolution reaffirming the friendship of the American people for all the peoples of the world, including the peoples of the Soviet Union," having met, after full and free conference, have agreed to recommend and do recommend to their respective Houses as follows:

That the Senate recede from its disagreement to the amendments of the House and agree to the same.

A. A. RIBICOFF,
THURMOND CHATHAM,
BROOKS HAYS,
JOHN M. VORYS,
FRANCES P. BOLTON,

Managers on the Part of the House.

TOM CONNALLY,
BRIEN MCMAHON,
ALEXANDER WILEY,

Managers on the Part of the Senate.

STATEMENT

The managers on the part of the House at the conference on the disagreeing votes of the two Houses on the amendment of the House to the concurrent resolution (S. Con. Res. 11) reaffirming the friendship of the American people for all the peoples of the world, including the peoples of the Soviet Union, submit the following statement in explanation of the effect of the action agreed upon by the committee of conference and recommended in the accompanying conference report.

The House struck out all of the Senate concurrent resolution after the resolve clause and the preamble and inserted substitute amendments. The committee of conference has agreed upon the House amendments. The resolution, as agreed upon by the members of the committee of conference, reads:

"Whereas the goal of the American people is now, and ever has been, a just and lasting peace; and

"Whereas the deepest wish of our Nation is to join with all other nations in preserving the dignity of man, and in observing those moral principles which alone lend meaning to his existence; and

"Whereas, in proof of this, the United States has offered to share all that is good in atomic energy, asking in return only safeguards against the evil in the atom; and

"Whereas the Congress reaffirms its policy as expressed in law 'to continue to exert maximum efforts to obtain agreements to provide the United Nations with armed forces as contemplated in the Charter and agreements to achieve universal control of weapons of mass destruction and universal regulation and reduction of armaments, including armed forces, under adequate safeguards to protect complying nations against violation and evasion'; and

"Whereas this Nation has likewise given of its substance and resources to help those peoples ravaged by war and poverty; and

"Whereas terrible danger to all free peoples compels the United States to undertake a vast program of armaments expenditures; and

"Whereas we rearm only with reluctance and would prefer to devote our energies to peaceful pursuits: Now, therefore, be it

Resolved by the House of Representatives (the Senate concurring), That the Congress of the United States reaffirms the historic and abiding friendship of the American people for all other peoples, and declares—

That the American people deeply regret the artificial barriers which separate them from the peoples of the Union of Soviet Socialist Republics, and which keep the Soviet peoples from learning of the desire of the American people to live in friendship with all other peoples, and to work with them in advancing the ideal of human brotherhood; and

That the American people believe the Soviet Government could advance the cause of peace immeasurably by removing those artificial barriers, thus permitting the free exchange of information between our peoples; and

That the American people and their Government desire neither war with the Soviet Union nor the terrible consequences of such a war; and

That, although they are firmly determined to defend their freedom and security, the American people welcome all honorable efforts to resolve the differences standing between the United States Government and the Soviet government, and invite the peoples of the Soviet Union to cooperate in a spirit of friendship in this endeavor; and

That the Congress request the President of the United States to call upon the Government of the Union of Soviet Socialist

Republics to acquaint the peoples of the Soviet Union with the contents of this resolution."

This resolution was initiated solely by the legislative branch of our Government. It sets forth in simple language an attitude that has characterized American policy since the inception of our Government. As a nation we have condemned tyrannous and oppressive governments; for those who have suffered under them we have always felt a deep sympathy. We have never engaged in a policy of damning those whose voices cannot be heard because of their master's voice.

We know that the Soviet philosophy is an aggressive one. The Politburo uses every opportunity to attack peace-loving nations by word and even by arms through its satellites. These activities, bordering so close to war, give us tremendous concern.

This resolution is not belligerent in word or spirit. It seeks to explain in explicit language the underlying attitudes that determine American foreign policy. If the artificial barriers between the Soviet-dominated peoples and the outside world could be lowered, if not leveled, and these ideas imparted to them, the committee is confident that present tensions could be immeasurably reduced.

As the elected representatives of the American people, we feel a particular responsibility in these critical days to do everything that will further the cause of peace. At the same time we wish to make known our sentiment that we do not seek peace at the expense of freedom and security.

This resolution seeks to convey these thoughts to all peoples, including those of the Soviet Union.

The purpose of this resolution is to ask the Soviet Government to lift the iron curtain so as to inform the Soviet people of the peaceful purposes of the American people and the American Government. Under our American system of freedom of expression, the position of the Soviet Union is always made available to the American people. At the same time, the Soviet Government which has complete control of its press and radio refuses to publish the truth about the peaceful aims and purposes of American foreign policy.

This is indeed the iron curtain in operation. It is without a rival as the world's greatest threat to peace.

The resolution touches the Soviet Government in its most vulnerable spot by inviting its peoples "to cooperate in a spirit of friendship" in an endeavor to resolve the differences between the United States Government and the Soviet Government.

Dictators fear nothing more than the unleashed wrath of their subjects. Any endeavor to separate the people from the rulers challenges the illusory popular base on which dictatorship rests. The Soviet Government is no exception to this age-old concept of tyranny.

An English-language broadcast from Moscow accused the resolution's sponsors of "resorting to demagogical and hypocritical maneuvers and subterfuge, posing as men of peaceful aspirations whose only desire is to achieve peace and international cooperation."

The resolution's sponsors were accused of "obviously trying to pull a fast one when they speak of settling differences between the American people and the Soviet Government."

The request to the President to make the contents of the resolution known to the peoples of the Soviet Union drew heavy fire from the broadcaster.

"The authors of the resolution seek to contrast the Soviet Government with the Soviet people. The absurdity and duplicity of such an assertion is only too obvious. The

Soviet Government is serving only the interests of the people. It enjoys the complete support and confidence of the people. The Soviet Government is firmly and persistently fighting for peace because it is thereby expressing the aspirations and defending the vital interests of the Soviet people."

Soviet reaction to the resolution is striking proof that the Soviet authorities fear an appeal to the rank and file of their citizens. It may well mark the first step in furthering a body of public opinion within the Soviet state that may check, if not counter, the Kremlin's policies.

The resolution challenges the Soviet Government by urging it to take a positive step toward the advancement of peace, namely, by removing the artificial barriers which block the free exchange of information between the peoples of the two countries.

A. A. RIBICOFF,
THURMOND CHATHAM,
BROOKS HAYS,
JOHN M. VORYS,
FRANCES P. BOLTON,

Managers on the Part of the House.

PERMISSION TO ADDRESS THE HOUSE

Mr. VAN ZANDT. Mr. Speaker, I ask unanimous consent to address the House for 1 minute and to revise and extend my remarks.

The SPEAKER. Is there objection to the request of the gentleman from Pennsylvania?

There was no objection.

ST. LAWRENCE SEAWAY

Mr. VAN ZANDT. Mr. Speaker, the CONGRESSIONAL RECORD of June 19 contains remarks by my colleagues and close friends, the gentleman from Louisiana [Mr. LARCADE] and the gentleman from Michigan [Mr. DONDERO], regarding a statement I made on June 18 that Maj. Gen. Lewis A. Pick, Chief of Army Engineers, is lobbying for the St. Lawrence seaway project.

I want to assure every Member of this House that I was not attacking the reputation General Pick enjoys as an engineer. All I did was read from the article written by Fred G. Eaton, columnist for the Ogdensburg (N. Y.) Journal, in which he quoted General Pick as saying:

Any group or individual who allows selfish interests to destroy these two great nations will have to answer to his own Maker.

Mr. Eaton continued by quoting General Pick as saying:

And that is just what anyone who opposes the seaway is doing.

Then directly quoting General Pick again Mr. Eaton proceeds:

We must have steel to take care of our oncoming needs. We need this waterway. We can't get sufficient steel without it, and I will stake my reputation as an engineer and truthful person on that.

Mr. Speaker, let us take Major General Pick's statement:

Any group or individual who allows selfish interests or motives to destroy these two great nations will have to answer to his own Maker—and that is just what anyone who opposes the seaway is doing.

In other words, Mr. Speaker, General Pick believes that those of us who oppose this economic monstrosity—the St. Lawrence seaway—are not only traitors but are guilty of a sin before Almighty God.

General Pick speaks of allowing selfish interests or motives to destroy the relationship between Canada and the United States. While I cannot speak for the millions of Americans who have opposed the St. Lawrence seaway for years, yet I can speak for the Governor of the State of Pennsylvania and the legislature of that great State, together with the many organizations that have joined in opposing a project that will destroy the economy not only of Pennsylvania but likewise of the United States.

Mr. Speaker, let us take the other quotation of General Pick:

We must have steel to take care of our oncoming needs. We need this waterway. We can't get sufficient steel without it and I will stake my reputation as an engineer and truthful person on that.

By this statement alone General Pick reveals himself as a lobbyist for the five small Midwest steel companies who are advocating construction of the St. Lawrence seaway to serve their own selfish interests.

I support my position by reminding you that the records of the Committee on Public Works contain testimony that a great majority of the steel operators who produce 75 percent of this Nation's steel are not interested in the Labrador-Quebec ore or in the St. Lawrence seaway project.

To be more specific, General Pick is applying his engineering ability in trying to refute the statement of Mr. Benjamin Fairless, of the United States Steel Corp., that the steel industry faces no ore scarcity. General Pick also finds his views are contrary to Mr. Eugene Grace, of the Bethlehem Steel Co., who insists that the St. Lawrence seaway is not essential to bringing in Labrador-Quebec ore.

As I said in the beginning, I am not attacking the reputation General Pick enjoys as an engineer. I am simply pointing out, as Mr. Eaton did in his newspaper column, that General Pick has stepped out of his role as Chief of Army Engineers when he accused those of us who oppose this international ditch as being not only traitors but guilty of a sin against Almighty God. That is strong language and I consider it an insult to Members of Congress, the Governor of Pennsylvania, and the State legislature of the great Keystone State, as well as to every loyal American who for over 50 years have opposed the St. Lawrence seaway and power project.

As far as the difference of opinion that exists between leaders of the steel industry and General Pick regarding the necessity of the St. Lawrence seaway and the bringing in of Labrador-Quebec ore, let me remind General Pick that he is on the payroll of the Federal Government financed by the American taxpayers. Therefore, it ill behooves him to step out of his engineering role and assume lobbying activities for the five small midwestern steel companies, who in reality are the selfish interests bent upon constructing the St. Lawrence seaway at a time when the American people are bowed down under the crushing weight

of exorbitant taxes and a swollen national budget.

PERMISSION TO ADDRESS THE HOUSE

Mrs. CHURCH. Mr. Speaker, I ask unanimous consent to address the House for 1 minute.

The SPEAKER. Is there objection to the request of the gentlewoman from Illinois?

There was no objection.

TRANSPORTATION OF FIREWORKS

Mrs. CHURCH. Mr. Speaker, I have today introduced a bill of great importance to the safety of this country, a bill to amend title 18, United States Code, so as to prohibit the transportation of fireworks into any State or political subdivision thereof in which the sale of such fireworks is prohibited. The bill was introduced at the instance of Coroner Brody, of Chicago, after a recent tragedy. It often happens that tragedies are necessary to point out the necessity for legislation. This bill, however, transcends the individual instance and is designed permanently to prevent continuing and perfectly avoidable tragedies. I hope that the House will give the bill the consideration it merits.

PERMISSION TO ADDRESS THE HOUSE

Mr. KERSTEN of Wisconsin. Mr. Speaker, I ask unanimous consent to address the House for 1 minute and to revise and extend my remarks.

The SPEAKER. Is there objection to the request of the gentleman from Wisconsin?

There was no objection.

DECENTRALIZATION OF CITIES

Mr. KERSTEN of Wisconsin. Mr. Speaker, Congress should create incentives for the decentralization of industry.

Experts on atomic warfare have been telling us again and again that the only defense to atomic bombing in America is to decentralize our cities. As long as we continue to have congested industrial areas we will have attractive targets for enemy bombs. Only a short time ago the President stated that it would be impossible to stop all enemy attacks completely, and that in case of a war with Russia it was most probable that some of our cities would be seriously damaged.

While the manner of the President's announcement during the MacArthur controversy indicated that he is using fear for political purposes, common sense dictates that we take steps to minimize danger to our cities as targets.

I believe we should take measures to encourage decentralization of our cities and in that way lessen both the possibility of atomic attack and also lessen the damage in case we should be attacked. To this end I have introduced into Congress today an amendment to the amortization provision of the income-tax law. Under the present law, emergency facilities built for national defense purposes can be depreciated in 5 years. This accelerated depreciation can be granted to a concern regardless of where the defense facility is located. My amendment however, would permit

House of Representatives

THURSDAY, JUNE 21, 1951

The House met at 10 o'clock a. m.

The Rev. Dr. Joseph F. Thorning, associate editor of the *Americas*, offered the following prayer:

Almighty and Eternal God, look down with favor upon the Speaker of this House, the Members of the Congress, and their colleagues in the other American republics.

Grant to our leaders the light of Thy graces and the blessings of Thy wisdom.

Vouchsafe to the President of the United States of America and to the Chief Executive of our sister Republic, Ecuador, whose noble-hearted son is a guest of our Nation, the splendors of Thy love so that all Americans may continue to form a company of brothers.

Inspire our people generously to uphold the hands of our good neighbors by prayer and sacrifice.

This we ask in the name of our Saviour, "the Christ of the Andes." Amen.

THE JOURNAL

The Journal of the proceedings of yesterday was read and approved.

DISCHARGE PETITION NO. 4 ON TOWNSEND BILL, H. R. 2678

(Mr. ANGELL asked and was given permission to extend his remarks at this point in the RECORD.)

Mr. ANGELL. Mr. Speaker, on February 16, 1951, I introduced H. R. 2678, and my colleague, the gentleman from Minnesota [Mr. BLATNIK], introduced a companion bill, H. R. 2679. One or more additional bills identical in language, I understand, have been introduced by other colleagues. The bills were referred to the Ways and Means Committee on February 16.

The objective of this legislation, known as the Townsend recovery plan, is to provide every adult citizen in the United States with equal basic Federal insurance, to permit retirement with benefits at the age of 60, and to cover total disability from whatever cause for certain citizens under 60; to give protection to widows with children; to provide an ever-expanding market for goods and services through the payment and distribution of such benefits in ratio to the Nation's steadily increasing ability to produce, with the cost of such benefits to be carried by every citizen in proportion to the income privileges he enjoys.

Seventy-eight House members petitioned the Ways and Means Committee as follows:

The undersigned Members of the Eighty-Second Congress respectfully request that the Ways and Means Committee report House Resolution 2679, commonly known as the Townsend plan, out of committee and to the House of Representatives, for action.

In view of the fact that the Ways and Means Committee has taken no action on the legislation and the time is approaching for a recess of the Congress, I have filed today Discharge Petition No. 4, which is on the Clerk's desk.

I most respectfully urge all Members of the House who are interested in providing adequate security benefits for the aged, dependent widows and orphans to sign Discharge Petition No. 4 so that the legislation may be brought to the floor for consideration. If 218 Members of the House sign it will be brought up under an open rule so that any germane amendments may be brought up and voted on. Later in the day I hope to get time to discuss the bill at greater length.

RAILROAD RETIREMENT ACT

(Mr. PERKINS asked and was given permission to extend his remarks at this point in the RECORD.)

Mr. PERKINS. Mr. Speaker, as all of us know, the House Committee on Interstate and Foreign Commerce is now considering improvements in the Railroad Retirement Act. I am deeply interested in this move and I hope that the committee will expeditiously report a bill in order that we may vote it up in the House.

The Railway Labor Executives Association, with whom all Members of the House are familiar, is supporting H. R. 3669 by Mr. CROSSER, of Ohio. This bill makes badly needed improvements in the Retirement Act. It affords to widows and children the increases to which they are so justly entitled. In addition, H. R. 3669 gives to all beneficiaries under the Railroad Retirement Act very substantial increases in keeping with the general advances in the cost of living. Also, H. R. 3669 adjusts the basic Railroad Retirement Act to facilitate good administration.

In addition to all of these benefits which I have mentioned, this bill makes provision for financing the suggested improvements. It is an easy thing to stand here on the floor and advocate giving someone something, but we must always bear in mind that costs must be met. The RLEA bill meets costs that are created by additional benefits. This bill is balanced, costs are balanced against income and the future of the retirement fund is not endangered.

The people of Kentucky are anxious that railroad pensioners, annuitants, and survivors not be crushed between low benefits and rising costs. I am supporting H. R. 3669, and I feel confident that every Member will do likewise after he has had an opportunity to study the problem and the bills now before the Interstate Commerce Committee. Good judgment requires that the committee report H. R. 3669, and the House in its

wisdom will undoubtedly pass the bill by a big majority.

CORRECTION OF ROLL CALL

Mr. BETTS. Mr. Speaker, on roll call No. 78, I am recorded as absent. I was present and answered to my name. I ask unanimous consent that the RECORD and Journal be corrected accordingly.

The SPEAKER. Is there objection to the request of the gentleman from Ohio? There was no objection.

CALL OF THE HOUSE

Mr. BISHOP. Mr. Speaker, I make the point of order that a quorum is not present.

The SPEAKER. Evidently there is no quorum present.

Mr. McCORMACK. Mr. Speaker, I move a call of the House.

A call of the House was ordered.

The Clerk called the roll, and the following Members failed to answer to their names:

[Roll No. 82]

Adair	Gavin	Miller, N. Y.
Allen, La.	Gillette	Morrison
Beall	Gossett	Murray, Wis.
Blatnik	Gwinn	Norblad
Breen	Hays, Ark.	O'Konski
Buckley	Hollifield	Patman
Byrne, N. Y.	Irving	Phillips
Camp	Javits	Pickett
Carnahan	Johnson	Powell
Celler	Kelley, Pa.	Preston
Chatham	Kersten, Wis.	Rivers
Coudert	Kilday	Sasscer
Cox	LeCompte	Scudder
Crosser	Lyle	Stockman
Dawson	McCarthy	Taylor
Dingell	McGrath	Tollefson
Durham	Mack, Ill.	Velde
Engle	Magee	Vorys
Evins	Mason	Wheeler
Fallon	Merrow	Whitaker
Flood	Miller, Calif.	Woodruff

The SPEAKER. On this roll call 365 Members have answered to their names, a quorum.

By unanimous consent, further proceedings under the call were dispensed with.

COMMITTEE ON EXPENDITURES

Mr. LUCAS. Mr. Speaker, I ask unanimous consent that the subcommittee studying the Wage Stabilization Board may have permission to sit during general debate this afternoon.

The SPEAKER. Is there objection to the request of the gentleman from Texas?

There was no objection.

REVENUE ACT OF 1951

Mr. DOUGHTON. Mr. Speaker, I move that the House resolve itself into the Committee of the Whole House on the State of the Union for the consideration of the bill (H. R. 4473) to provide revenue, and for other purposes.

The motion was agreed to.

Accordingly the House resolved itself into the Committee of the Whole House on the State of the Union for the consideration of the bill H. R. 4473, with Mr. RAINS in the chair.

The Clerk read the title of the bill.

By unanimous consent, the first reading of the bill was dispensed with.

The CHAIRMAN. Under the rule debate will be confined to the bill, will continue not to exceed 2 days, the debate to end not later than 4 o'clock on the second day, the time to be equally divided and controlled by the gentleman from North Carolina [Mr. DOUGHTON] and the gentleman from New York [Mr. REED].

The gentleman from North Carolina is recognized.

Mr. DOUGHTON. Mr. Chairman, I yield myself 38 minutes.

Mr. Chairman, H. R. 4473, the bill to provide revenue, and for other purposes, is the result of 4½ months of continuous work by the Committee on Ways and Means. After 2 months of public hearings during which more than 200 witnesses appeared and testified, the committee went into executive session for approximately 2½ months to study and discuss the record of nearly 3,000 printed pages and to prepare a tax bill.

On June 15, by a 19-to-6 vote of our committee, the bill which I had been directed to introduce was favorably reported. This bill, in a full year of operation, according to the staff of the Joint Committee on Internal Revenue Taxation, is estimated to yield \$7,200,000,000 in additional revenue from the following sources:

Income taxes on individuals.....	\$2,847,000,000
Income and excess-profits taxes on corporations.....	2,855,000,000
Excise taxes.....	1,252,000,000
Other changes.....	245,000,000
Total	7,199,000,000

This is the third increase in taxes since the outbreak of the Korean War last June. The first increase was contained in the Revenue Act of 1950 and amounted to approximately \$6,000,000,000. The second increase was contained in the Excess Profits Tax Act of 1950, and amounted to \$3,900,000,000. The third increase in the pending bill amounts to \$7,200,000,000. Thus, the total increase due to these three acts amounts to over \$17,000,000,000.

In this context, I think it just and proper that I should pay tribute to the members of our committee, who spent more than 11 months on these three measures, not counting the time spent in conference. Many of our decisions have been unanimous, and, of course, every decision made by the pending bill was reached by at least a majority of the members of the committee. On very few votes in our committee was there a division strictly on party lines—I believe on only 7 out of more than 100 roll calls in the committee. I sincerely believe that the pending bill represents the composite best judgment of the membership of the Committee on Ways and Means as to the most appropriate sources of the additional revenue so urgently required to finance the defense program.

Although the amount provided in this bill is not as large as the administration request, which was for a little more than \$10,000,000,000, it is, in the opinion of our committee, as large an amount as could safely be collected from the economy under present conditions. It is hoped that, with a proper curtailment in nonessential Government spending, it will be ample to balance the budget for the fiscal year 1952. As we near the close of the fiscal year 1951, it appears that we will have a surplus for this fiscal year in the neighborhood of three to four billion dollars, due primarily to the effect of the previously mentioned revenue acts. Our position, for the fiscal year 1951, is, therefore, brighter than the position we were in for the fiscal year 1950, which closed with a deficit of over \$3,000,000,000. It is for the heavy defense expenditures in the years immediately ahead, however, that we are now called upon to raise Federal taxes to the highest level in our history.

As I view it, there are three alternatives facing the Congress: First, we must raise taxes even higher than those provided under present law and in the pending bill; or, second, we must reexamine and reduce Federal expenditures wherever possible, including not only the ordinary operations of Government, but the military and foreign aid budgets as well; or, third, we must embark upon a heavy program of additional borrowing and deficit financing. Of these three alternatives, I consider it unlikely that we shall be able to increase substantially the yield of the Federal tax system beyond what is included in the present bill. I say this in all frankness and sincerity, for I consider it essential that we face up to the fact that any higher tax rates on either individuals or corporations or excises would be exceedingly burdensome and difficult to impose. On the other hand, the financing through borrowing of any substantial part of the defense program for an indefinite period in the future would certainly contribute to inflation and might permanently and seriously impair the credit of the Government. The only sound future course, in my opinion, is to reexamine the scope of Federal activities and to cut expenditures to the bone.

This is the setting, then, in which we ask favorable consideration of the pending bill, which includes the following major provisions:

A. Increase in individual income taxes: Our committee decided that instead of increasing the individual rate schedule, it would be better and simpler to provide for a flat percentage increase in the amount of each individual's income tax. This method, if I am not mistaken, was first mentioned by a minority member of the committee. Under this method, each individual liable for taxes will compute his tax as under present law, and then increase it by a flat 12½ percent. This is similar to the method followed in the first Revenue Act of 1940, when we had to raise revenue for defense purposes, and it is a method which has been employed by several of the States in raising revenue for emergency purposes.

It is believed that this method will emphasize the emergency nature of this tax, and this will be emphasized by naming it a defense tax.

For the calendar year 1951, the defense tax is 4 percent of the ordinary tax so computed. For the calendar year 1952 and subsequent years, the defense tax is 12½ percent of the computed ordinary tax. To prevent the total tax from being confiscatory in the unusually high brackets, it is provided that the top bracket rate on that part of an individual's income after exemptions and deductions in excess of \$160,000, if married, and \$80,000, if single, will not exceed 94.5 percent. In no case can the entire tax be greater than 90 percent of a taxpayer's net income. This means that for each dollar of income above those amounts the taxpayer would never pay more than 94½ percent and when the taxes on income below \$160,000, if married, and \$80,000, if single, are averaged together with the 94.5 percent tax on income above those amounts the total average tax could never exceed 90 percent of the taxpayer's net income.

Our committee felt that the increases in the ordinary tax should also apply to the tax on capital gains. The increase of the tax on capital gains is the same as the increase applied to the tax on ordinary income, such as wages, salary, and dividends. Individuals subject to the alternative capital-gains tax rate of 25 percent will, under the bill, be required to compute their capital-gains tax at such rate and then add 12½ percent to the tax so computed. For the year 1951 the amount to be added to the capital-gains tax is 4 percent of such tax, instead of 12½ percent. The increase in the capital-gains tax is considerably smaller than that advocated by the Treasury, which recommended an increase in the capital-gain rate effective January 1, 1951, from 25 percent to 37½ percent. The committee bill will result in a total capital-gain rate of slightly over 28 percent.

B. Corporation taxes: The bill also increases the normal tax on corporations by 5 percentage points. This means that corporations with incomes of \$25,000 or less who under the present law pay a corporate rate of 25 percent will have their rate increased to 30 percent. Corporations with incomes above \$25,000 which pay both normal and surtax will have their total tax rate raised from 47 percent to 52 percent. This 5-percentage-point increase and the corresponding increase in the over-all ceiling rate is estimated to increase revenues by approximately \$2,085,000,000 in a full year of operation. This increase in the corporate normal tax rate affects the burden of all corporations, including the smaller corporations not subject to the excess-profits tax.

In addition, the committee bill increases the excess-profits tax by reducing the average earnings base credit from 85 percent of such base period earnings to 75 percent. It is deemed preferable to raise further additional revenue from corporations making excess profits than to increase the corporate rate by

more than 5 percentage points. A further increase in the corporate rate would cause the burden of taxation to fall on those corporations whose profits during the base period have declined more than 25 percent and upon the smaller corporations not subject to the excess-profits tax.

Under the existing law, a ceiling is imposed upon the total normal tax, surtax, and excess profits tax, so that in no case will the total of such taxes exceed 62 percent of the corporation's excess-profits tax net income. Many of the largest and most prosperous corporations have already reached this 62-percent ceiling. In order that the normal tax and excess-profits tax increases might also apply to such corporations, it was necessary to raise the ceiling to 70 percent.

Corporations are also required to pay an additional tax on their capital gains. But this increase is limited to the same increase which is applied to individuals. That is, an additional 4 percent of their capital-gains tax is added for the calendar year 1951 and an additional 12½ percent is added to their capital-gains tax for 1952 and subsequent years.

C. Withholding on dividends, royalties, and certain payments of interest: The bill also contains a provision providing for collection of tax by withholding at the rate of 20 percent in the case of dividends, corporate bond interest, and royalties. Recipients would proceed in filing income-tax returns just as they do now in the case of salaries and wages where taxes have been withheld, taking credit for taxes withheld and claiming refund if overpayment has occurred. The bill specifically exempts from the withholding requirements interest on United States savings bonds, postal savings certificates, interest on savings accounts, and amounts paid by mutual savings banks, savings and loan associations, cooperative banks, homestead associations, credit unions, or any similar organization in respect of withdrawable or repurchasable shares, investment certificates, or deposits. The revenue to be collected from this source, which is not now being collected because of the failure of taxpayers to report proper amounts of dividends, royalties, and interest, amounts to \$323,000,000.

There are some taxpayers who prefer to have a greater part of their tax on wages covered by withholding than is possible at the withholding rates on wages. The bill contains a provision to permit additional withholding on wages if the employer and employee agree to such additional withholding.

D. Miscellaneous income tax changes: The bill contains a number of miscellaneous income-tax amendments. Some close existing loopholes in the law and others remove certain inequities and hardships. These are all fully discussed in the report, and I will, therefore, mention only a few of them.

First. Head of a household: First, the bill recognizes the unfairness in present taxes which exist between a married couple and a head of a household. An especially unfortunate situation exists

where the one spouse dies in a taxable year. The sudden increase in tax due to the fact that the surviving spouse is no longer entitled to the benefits of the split income provisions add another burden to the bereaved spouse who is endeavoring to maintain a home for the benefit of the children. In fact, although the expenses of the home may actually be greater than before the death of one of the spouses, the tax burden under existing law is materially increased on account of such death. The bill provides for a special table which will give the head of a household one-half of the benefits of income-splitting. An individual who is not married will qualify for relief under this provision if, for example, he maintains a home for his unmarried children or grandchildren and furnishes more than one-half of the maintenance costs of such household. Where unmarried children are involved, this relief will be granted, regardless of how much income the unmarried child or grandchild living with the taxpayer may have, so long as the taxpayer furnishes more than one-half of the household expenses. On the other hand, a taxpayer maintaining a household for his mother, father, brother, or sister will qualify for relief under this provision only if the dependent has income of less than \$500, and the taxpayer maintaining the home furnishes more than one-half of the support of such dependent.

Second. Gain upon the sale of residences: The bill grants relief for home owners who sell their houses and reinvest in a new home. In such cases the gain upon the old home is illusory since it probably is offset by the higher price paid for the new home. Consequently, under the bill the gain on sale of a residence would be recognized only to the extent the proceeds exceed the cost of a new residence purchased within 1 year before or after sale of the old residence.

Third. Gain from sale of livestock: The bill writes into the law the principle of the Albright case giving capital gain treatment to livestock used in the taxpayer's trade or business. It reaches this result by defining property used in the trade or business as "livestock held by the taxpayer for draft, breeding, or dairy purposes for 12 months or more." The term livestock is intended to be given a broad rather than a narrow interpretation.

Fourth. Percentage depletion: Another relief provision is one granting percentage depletion to certain new minerals, and increasing percentage depletion in the case of coal from 5 percent to 10 percent. The following new group of minerals is allowed percentage depletion at the rate of 5 percent: Sand, gravel, stone—including pumice, scoria, slate—brick and tile clay, shale, oyster shell, clam shell, granite, marble, and asbestos.

The following minerals are added to the list of minerals receiving a 15-percent depletion allowance: Borax, fuller's earth, tripoli, refractory and fire clay, quartzite, perlite, diatomaceous earth, and metallurgical and chemical grade limestone.

Many of these minerals compete with minerals now being granted a depletion allowance, and the committee thought it desirable to place such minerals on a competitive basis as far as the depletion allowance is concerned.

Fifth. Taxation of life-insurance companies: Pending a thorough study of the taxation of life-insurance companies, the bill would continue the stopgap legislation for 1951 developed in the last Congress by a subcommittee of the Committee on Ways and Means and included in the Revenue Act of 1950.

E. Excise taxes: I regret that we had to secure additional revenue by increasing the rates on some existing excise taxes and providing for some new ones. Many of the excises are still at the rate in effect during World War II. The total additional amount to be obtained under the bill from excises is \$1,252,000,000. Of this amount, \$252,000,000 is secured from increases in the tax on liquor, beer, and wine; \$177,000,000 from increasing the tax on cigarettes from 7 cents a pack to 8 cents a pack; and \$447,000,000 from manufacturers' excise taxes.

First. Retail excises: In the retail tax field, the bill results in a slight loss in revenue. While an additional amount of revenue is secured from subjecting to the jewelry tax, mechanical lighters for cigarettes, cigars and pipes, \$7,000,000 of revenue would be lost from certain exemptions in the tax on toilet preparations. One is an exemption of baby oils, baby powders, and baby lotions. The other exempts toilet preparations used by barber shops and beauty parlors in their establishments. These two exemptions result in a loss of \$7,000,000, which, together with the net gain of \$2,000,000 secured from taxing mechanical lighters, makes a net loss of \$5,000,000.

Second. Electrical energy: One of the taxes which has caused a great deal of concern and which has been on the statute books for many years is the tax of 3⅓ percent imposed on electrical energy used for domestic or commercial consumption. The present law exempts from the tax electric power purchased from publicly owned utilities. The tax has not only been difficult to administer but it has caused discrimination among various consumers, depending upon whether they purchase their electricity from a publicly owned plant or a privately owned plant. Your committee deemed it wise to eliminate this tax entirely.

Third. Liquor, wine, and beer: Turning to the liquor taxes, the rate of tax on distilled spirits is increased under the bill from \$9 to \$10.50 per proof gallon. The increase on beer would be from \$8 to \$9 per barrel. In the case of alcohol used for medicinal preparations and flavoring extracts, the committee bill actually reduces the tax by allowing a drawback of \$9.50 per gallon. This makes a net tax of \$1 to be paid in the case of alcohol used for medicinal preparations and flavoring extracts. Our committee considered very carefully the tax on wines and a compromise rate was agreed upon raising the various wine tax rates by approximately 12½ percent.

Certain occupational taxes for dealers in liquor and beer were also increased.

Fourth. Gambling taxes: A new tax is added in the bill on gambling, which applies mainly to bookmaking and numbering transactions. The rate is 10 percent of the amount bet. There is also an occupational tax of \$50 a year imposed upon a person liable to the tax and upon any person receiving bets for or on behalf of such person. The yield from this tax is estimated at around \$400,000,000.

Mr. DONDERO. Mr. Chairman, will the gentleman yield?

Mr. DOUGHTON. I yield.

Mr. DONDERO. I thought gambling was illegal in this country.

Mr. DOUGHTON. Well, I guess it is in most States. There are many illegal things that are taxed. Just because they are supposed to be illegal, would the gentleman be opposed to taxing them? If gamblers make money at gambling, does the gentleman think they should not pay an income tax on the money they win, the same as other people pay taxes on money they earn by doing a hard day's work?

Mr. DONDERO. I am not arguing against it. I am raising the question whether the United States should enter into taking a tax from an illegal transaction.

Mr. COOPER. Mr. Chairman, will the gentleman yield?

Mr. DOUGHTON. I yield to the gentleman from Tennessee.

Mr. COOPER. Of course, this is a tax on gross receipts from gambling. If the income comes from some illegal activity, it is taxable under the Federal income-tax laws.

Mr. DOUGHTON. It is estimated that this tax will yield about \$400,000,000 annually. To that extent it will lighten the burden of other taxpayers. I hope no Member of this House will vote against this bill, but I am sure if he does he will not assign as a reason for voting against it the fact that we put a tax on gambling.

Mr. HOFFMAN of Michigan. Mr. Chairman, will the gentleman yield?

Mr. DOUGHTON. I yield.

Mr. HOFFMAN of Michigan. The gentleman from Tennessee [Mr. COOPER] made a statement about its being an income tax. Does it carry any implication that it is in any way a sort of license for those people engaging in those activities?

Mr. COOPER. Mr. Chairman, will the gentleman yield?

Mr. DOUGHTON. I yield.

Mr. COOPER. Certainly there is no thought or intention to condone the activity in any sense.

Mr. HOFFMAN of Michigan. But could it be so construed?

Mr. COOPER. We certainly do not think so. We do not want it to be so construed. There is certainly no intention or thought of in any sense or in any way condoning the activity. But the fact remains that information received indicates that large sums of money are made through this type of activity, and we simply thought that an effort should be made to impose a tax on that type of activity.

Mr. HOFFMAN of Michigan. Properly considered, then, it would be a sort of additional penalty on those unlawful activities, would it not?

Mr. COOPER. If the gentleman will turn to page 55 of the committee report he will find this statement:

Proposals for a Federal tax on wagering are sometimes criticized as in effect sanctioning the carrying on of gambling activities in violation of such laws. The committee does not share this view. Since its inception, the Federal income tax has applied without distinction to income from illegal as well as legal sources, and it has never been generally supposed that such application carried with it any implied authorization to carry on illegal activities.

Mr. HOFFMAN of Michigan. Then I will renew my observation that it might if properly construed be considered an additional penalty on the illegal activities.

Mr. COOPER. Certainly, and we might indulge the hope that the imposition of this type of tax would eliminate that kind of activity.

Mr. ARMSTRONG. Mr. Chairman, will the gentleman yield for a question?

Mr. DOUGHTON. I yield to the gentleman from Missouri.

Mr. ARMSTRONG. I wish to ask the distinguished and venerable leader of this committee who has outlined so well the provisions of this bill an important question that is bothering a number of us and certainly me as a new Member; he has outlined the three alternatives: First, this tax bill and more taxes perhaps; second, the cutting of expenses; third, continued deficit spending. In the matter of the second alternative I wonder if the gentleman can give us the total amounts that this administration or the administration leaders of this House have recommended or are prepared to recommend by way of cutting expenses of the Federal budget, specifically the elimination of any needless boards and bureaus, or other expenses of the Government? If the gentleman could give us an answer to that I think many of us would be better prepared to consider voting for this bill.

Mr. DOUGHTON. That inquiry could probably be more properly addressed to and more accurately answered by the Committee on Appropriations which has the responsibility of making appropriations.

The administration is criticized severely about expenditures of public funds and blamed for heavy taxes. I am not authorized to speak for the administration so far as that is concerned, but we all know that the administration, the President of the United States, and the head of not a single department of this Government can spend one dollar that is not authorized and appropriated by the Congress. They submit these estimates, make their recommendations, and we act on them; they propose, we dispose.

Now, on the question as to whether or not in my judgment it is necessary to cut expenditures. Certainly it is necessary for us to cut expenditures, but I shall not criticize the Committee on Appropriations or make recommenda-

tions to them. I am sure the House realizes that in view of the present heavy burden of taxes that the taxpayers of this country must carry, almost a back-breaking burden, that it is not only essential and important but also absolutely necessary, if the economy of the country is to be kept sound and we to perform our duties and fulfill our just obligations, for us to scrutinize expenditures with the greatest possible care and keep them to the lowest point possible. That responsibility rests upon the Congress and primarily, of course, so far as committees are concerned, upon the Committee on Appropriations. I am sure that committee is doing and will continue to do a magnificent job and scrutinize carefully every request for additional appropriations.

Fifth. Manufacturers' excise taxes: The gasoline tax is increased from 1½ cents to 2 cents per gallon and a new tax of 2 cents a gallon imposed on Diesel fuel used on highways. The total yield from these sources is \$220,000,000.

The tax on passenger automobiles and motorcycles is increased under the bill from 7 percent to 10 percent, and the tax on trucks, busses, and truck trailers is increased from 5 percent to 8 percent. The tax on automobile parts and accessories is also increased under the bill from 5 percent to 8 percent. However, the bill contains a relief provision which excludes from the tax base on automobile parts the fair market value of any part traded in for a reconditioned or rebuilt part.

In the case of the 10-percent manufacturers' tax on electric, gas, and oil appliances, the bill does not increase the rate but adds a number of new items to the tax base.

In the case of sporting goods, the bill eliminates from the tax base practically all of the items used principally for school sports and by children, with the exception of baseballs and baseball equipment. Because of the effect upon the revenue, it was not found possible to eliminate the tax on baseballs and baseball equipment. The rate of tax on the items subject to the sporting-goods tax was increased from 10 percent to 15 percent.

Sixth. Telegraph messages: The tax on domestic telegraph, cable, and radio messages is reduced under the bill from 25 percent to 20 percent. This brings this tax more in line with other taxes.

Seventh. Admissions tax: Our committee did not provide for any increase in the admissions tax. However, the bill does contain an exemption from the admissions tax where all the proceeds inure to religious, charitable, educational institutions, and so forth. It does not, however, exempt admissions to athletic contests unless the proceeds inure exclusively to the benefit of elementary or secondary schools. The bill also exempts admission to county fairs, to concerts conducted by nonprofit civic associations, and to government-operated swimming pools. Under the bill, free admissions would not be taxed, and admissions at reduced rates would be taxed only on the amount actually paid.

CONCLUSION

The pending bill is the cooperative effort of 25 earnest and sincere members of the Committee on Ways and Means. To those who contend that the bill does not raise sufficient revenue, I suggest that the enactment of an additional \$17,000,000,000 tax load on the people of this country within a period of less than a year is a major legislative accomplishment. That it is understood to be necessary to provide the foundation for strength and support of democratic institutions against Communist aggression is a demonstration that free men can govern themselves successfully.

To those who maintain that the bill would impose too heavy a burden, I point out that personal income and corporate profits are at record levels, and that most people will still have, after the higher taxes are paid, larger take-home pay than they have ever previously enjoyed.

To those who contend that the bill does not impose the additional tax burden in the wisest and most equitable manner, I can only say again that each decision represents a majority vote of the Committee on Ways and Means.

Mr. Chairman, this is the best our committee could do. If you want a better bill, you will probably have to get a new committee. Some Members think the bill should be recommitted to the committee. I am sincerely of the opinion that, if the House is not satisfied with this bill and wants a better one than we have presented here, it will be necessary to get a better committee. I know most of the members of the Committee on Ways and Means are tired. Of course, I, myself, being the youngest member of that committee am not tired, but the older ones are.

If you think we should not raise any additional revenue at all, if you think we can get along with what we will have and not appropriate any more than present taxes will produce, or if you think we should embark on a program of financing the Government by borrowing, just vote against this bill. But I do not believe we can safely do that. If you send this bill back to committee, and we labor four more months, I doubt whether we could bring in a better bill. I do not believe our Democratic members and our Republican friends and colleagues of this committee, ably headed by the gentleman from New York [Mr. REED] would say, if the bill is recommitted, that our committee would be likely to agree on a better one than we have presented.

Mr. Chairman, we urge the favorable consideration and enactment of the pending bill—the greatest tax bill in American history for the reasons afore-stated.

Mr. REED of New York. Mr. Chairman, I yield myself 40 minutes.

Mr. Chairman, we have just listened to a great and grand American. We may not agree in our philosophy on some things, but as far as concerns the patriotism, and the earnestness, and the sincerity, and the justice of the great man from North Carolina [Mr. DOUGHTON], who has just spoken, I think we can all agree that he is outstanding in every respect.

Mr. JENKINS. Mr. Chairman, will the gentleman yield?

Mr. REED of New York. I yield to the gentleman from Ohio.

Mr. JENKINS. I think that we on our side will agree that, if he were the President of the United States, no one would be crying out about extravagance and expenditures.

Mr. REED of New York. I think we all concur in that.

Mr. Chairman, 75,000 American boys—dead, wounded, or missing in Korea.

Another 75,000 American boys, many permanently injured and maimed for life—the so-called nonbattle casualties of the war we never fought.

And each day the casualty list grows.

Each day in the valleys and mountains of Korea American boys are fighting and dying for an ideal—an ideal that many of them were too young to ever fully understand.

Mr. Chairman, these boys and their loved ones have made the greatest sacrifice and it is for us here in this great Chamber to be equal to the trust they have imposed upon us to preserve the ideals for which they fought and died.

It is for us who are charged with the great public responsibility imposed upon us by the people to safeguard and cherish the fundamental principles of this great Republic of free people.

At the very least this means, Mr. Chairman, that to the greatest extent possible there must be equality of sacrifice by all of us.

It is not right.

It is not just.

It is not the American way to ask any one group of our people to alone bear the burden, and make the sacrifice brought upon us by world conditions.

And yet, Mr. Chairman, although the young men of our country have again been called to the colors; although the Congress has imposed drastic emergency measures on the economic life of our country; although the Congress has already twice within the past 12 months called upon all the people to carry a heavier tax burden to pay for the defense program; although the Congress has already done these things in this period of crisis, President Truman has refused to make any sacrifice in the huge and mounting cost of nonessential Government spending.

The issue, and the only issue, therefore, raised by H. R. 4473 is whether the same sacrifice imposed during this crisis on the people by the Government should not now be imposed by the people on the Government.

Whether before imposing over \$17,000,000,000 in new taxes within less than 12 months President Truman and this Congress should not be called before the bar of the American people and made to show that the same restraint and sacrifice has been exercised in the spending of the people's money.

And the answer from all the people is "Yes." They are demanding that President Truman and this Congress cut Government and that the Congress levy new taxes only to the extent that it is necessary to pay for essential costs of Government.

From Maine to California, from the mountains of Tennessee to the lakes of Minnesota, all the people are demanding that President Truman and this Congress cut Government spending before imposing higher taxes.

Can this be done without interfering with the defense program?

Of course it can. You know it. I know it. The American people know it.

Let me give you a few simple facts:

President Truman has asked for cash expenditures of \$71,600,000,000 for fiscal 1952 beginning in just about 10 days. Forty billion dollars is for the Department of Defense; \$23,000,000,000 is for the nonmilitary expenses of running the Federal Government; and \$8,600,000,000 is for economic and military aid to Europe. This makes a total of \$71,600,000,000.

As the result of the \$10,000,000,000 in new taxes already imposed just a few months ago, the net revenue for fiscal 1952 is estimated to be \$61,000,000,000—\$15,000,000,000 higher than during World War II. This will make a deficit of approximately \$10,000,000,000 in fiscal 1952.

Now, I say to you and to the American people that without in any way interfering with the defense program, or with the essential operation of the Government, a cut of at least \$8,000,000,000 can be made, and I will show you how:

First, President Truman and Secretary of State Acheson have asked for \$8,600,000,000 for economic and military aid for Europe. Of this amount \$2,600,000,000 is for so-called economic aid only. I say that at least \$4,000,000,000 of this \$8,600,000,000 can be cut, and I challenge any Member of this Congress to show me why this reduction cannot be made.

Second, in addition to the \$8,600,000,000 for foreign economic and military aid, President Truman has asked for \$23,000,000,000 for nonmilitary expenditures of the Federal Government. At least \$2,000,000,000 or less than 10 percent of this amount can be cut. And I challenge any Member of this Congress to show me, and show the people of my district and the people of this country, that in this period of national crisis a reduction of \$2,000,000,000 in the cost of nonmilitary expenditures could not be made.

Even with announced and open hostility by President Truman this distinguished body has already cut his requests for appropriations by \$1,240,000,000 in the seven or eight bills which have been considered. This is over 10 percent of budget estimates totaling approximately \$11,640,000,000.

These two reductions will amount to \$6,300,000,000.

The biggest item in the 1952 budget is the \$40,000,000,000 for expenditures for the Military Establishment. I know, and you know, and the American people know, that a cut of \$2,000,000,000, or only 5 percent, could be made without in any way interfering with the defense program. Reliable estimates show that \$500,000,000 could be saved in the more efficient use of personnel alone.

This is a total cut of \$8,000,000,000. If it were made, the estimated deficit at

this time for fiscal 1952—that is, a year from now—without any new taxes, would be approximately \$2,500,000,000. And probably there would be no deficit at all. But even if a small deficit appeared likely then in January of next year—6 months prior to the end of fiscal 1952—the Congress could review the fiscal picture, and additional taxes adequate to raise this, or a lesser amount, could then be imposed, if really necessary.

Many responsible organizations and individuals believe that a reduction of more than \$8,000,000,000 in cash expenditures for fiscal 1952 can be made during this emergency period of crisis. I personally share their views, but I have intentionally shown how at least \$8,000,000,000 can be cut in order to reflect an obviously fair figure between the \$10,000,000,000 and \$6,000,000,000 reduction figures which have been recommended.

Cut Government spending, and then levy new taxes only to the extent it is absolutely necessary to meet essential Government spending. This is the meaning of a true pay-as-we-go program.

This is the sound position.

This is the American position.

This is the Republican position.

But President Truman is under the dangerous illusion that pay-as-we-go is only a one-way street of ever-increasing expenditures paved with higher taxes. As the result of this philosophy, unfortunately deliberately promoted by those who seek to destroy the American system under the guise of national emergency, the budget for fiscal 1952 was prepared and presented to the Congress without any attempt at Government economy or without any realistic regard to the availability of the necessary new taxes to support his domestic and foreign program. Commenting on this point, the unanimous minority views on H. R. 4473 states as follows:

In the face of such casual and haphazard conduct of our Nation's finances in this period of crisis and sacrifice, President Truman's dare to the Congress to reduce his budget reflects a callous disregard for the preservation of the Nation's financial security unparalleled in American history.

But, you say, will not imposing \$17,000,000,000 on the working men and women of this country within the past 12 months stem the tide of mounting inflation?

The answer is "No." Excessive taxation will never cure inflation. In fact, excessive taxation creates inflation. Let me call your attention to the fact that as the result of the \$10,000,000,000 in new taxes already imposed by the Congress within the last 12 months, the Federal Government is now running both a cash and budget surplus for this fiscal year. I predict that the surplus will be almost \$4,000,000,000. And yet, despite this fact, wholesale prices are 20 percent higher than a year ago and 15 percent higher than at the time of the Korean invasion. The Consumers' Price Index of the Bureau of Labor Statistics, reflecting this increase, shows that the cost of living has risen from 170.2 percent a year ago to 185 percent today. Higher taxes cannot do the job alone.

Inflation is caused by too much money chasing too few goods. But money taken from the people by taxation and then spent again by the Government does not reduce the amount of money. The fundamental and basic causes of inflation boil down to the fact that for the past 20 years, with the exception of the Republican Eightieth Congress, the number of dollars has more than trebled while the amount of commodities has not even doubled.

During this period the fiscal policies of the Democratic administration have been to borrow money from the people, to multiply the Government's indebtedness many times, and to turn this indebtedness into more money. These policies together with the refusal by President Truman to cooperate with this Congress during this drastic emergency period is the cause of the higher cost of living to the American people.

Higher taxes will not cure these evils, and I predict that if H. R. 4473 should be enacted, it will be less than 6 months before President Truman requests even more money than he has requested for the budget in fiscal 1952. I predict that if H. R. 4473 is enacted, the cash expenditure budget for fiscal 1953, which will be presented to the Congress next January, will exceed \$85,000,000,000. You know, and I know, and the American people know that this will be the terrible sequel of imposing any taxes without first reducing Government spending as can be done.

Will H. R. 4473 balance the budget for fiscal 1952?

Of course not. The plain and uncontested fact is that additional sources of revenue to pay for President Truman's \$71,600,000,000 expenditure budget for fiscal 1952 are not available under any sound tax program. Let me say this again—and if I am wrong I call upon any of my distinguished colleagues on the Ways and Means Committee to correct me—the additional sources of revenue to pay for President Truman's \$71,600,000,000 expenditure budget for fiscal 1952 are not available under any sound tax program. Think this over.

The Treasury experts never presented to the committee any feasible program which would raise the necessary taxes to pay for President Truman's budget in fiscal 1952.

The Democratic members of the Ways and Means Committee in preparing this bill could find none.

Not a single witness who appeared during the public hearings could suggest any acceptable tax program to pay for President Truman's budget, because there is no tax program. We have reached the bottom of the American tax barrel.

Most economists agree that between 25 and 30 percent is the maximum tax load that can be carried in a vigorous productive economy. But the Congress should know that our gross Federal taxes together with our State and municipal taxes are already taking 30 percent of our national income—the highest.

And what does this mean?

I will tell you what it means.

It means that 24 of our 48 States have already adopted resolutions asking the Congress to call a constitutional convention in order to impose a limit of 25 percent of the amount that the Federal Government can take from an individual's or company's income.

It means that thousands of loyal, conscientious, and hard-working American citizens in the lower-income groups are being deprived of the very necessities of life as the result of high taxes.

It means that we are rapidly imposing the same tax burden on the American people as is now imposed under the Socialist Government of Great Britain.

Let me now turn briefly and make some frank observations on the provisions of this monstrous bill H. R. 4473, the major revenue provisions of which were agreed to in a secret Democratic caucus by the Democratic members of the Ways and Means Committee.

In passing I call your attention to the fact that it was just about 4 months ago that the Democratic majority of this committee rejected every Republican amendment to safeguard abuses by the State Department in the conduct of the reciprocal trade program. But the House overwhelmingly rejected the position taken by the 15 Democratic members of the Ways and Means Committee on this legislation.

It ought to be apparent to any person of common sense that we cannot live off the rich. There are too few of them. We cannot live off overtaxed industry without inflating prices of everything we buy.

It is obvious, except to the crackpots, that every dollar the Government spends is a dollar we ourselves pay.

It is the Communist doctrine that there is no truth in the law of nature and the word of God that man must live by his own honest labor and earn his bread by the sweat of his brow.

This bill H. R. 4473 carries tax burdens which will retard industrial development—taxes which will destroy wealth and the capital necessary for industrial expansion to meet the defense program by private economy.

This is a bill to authorize the bureaucrats to turn the taxpayers' pockets inside out. They are going to make the country strong by stopping the people from spending their own hard-earned money.

Excessive taxation of incomes, such as we have under H. R. 4473, merely drains the lifeblood out of the whole economic system.

Thus drained of their energy, the people become wards of the Federal Government. This is socialism. This is the road ahead under H. R. 4473. This is the fulfillment of the dream of the hard core of the Socialist planners within the Truman administration. H. R. 4473 is their tax legislation.

At this point, Mr. Chairman, I submit for the Record three tables which give some idea of the enormous increased tax burden imposed upon all individuals by the flat 12½-percent increase provided for in H. R. 4473 over the amount of taxes paid by the people of the country

less than a year ago. The real impact of this burden must be measured, of course, in the light of the increased cost of living which has taken place during this period.

Single person, no dependents

Income after deductions but before exemptions	A year ago	Under H. R. 4473	Tax increase
\$600			
\$800	\$33	\$45	\$12
\$1,000	66	90	24
\$1,500	149	203	54
\$2,000	232	315	83
\$3,000	409	549	140
\$5,000	811	1,062	251
\$8,000	1,546	2,003	457
\$10,000	2,124	2,741	617
\$15,000	3,894	5,004	1,110
\$20,000	6,089	7,810	1,721
\$25,000	8,600	11,021	2,421
\$50,000	23,201	29,687	6,486
\$100,000	58,762	74,831	16,069

Married couple,¹ no dependents

Income after deductions but before exemptions	A year ago	Under H. R. 4473	Tax increase
\$1,000			
\$1,500	\$50	\$68	\$18
\$2,000	133	180	47
\$3,000	299	405	106
\$5,000	631	855	224
\$8,000	1,206	1,593	387
\$10,000	1,621	2,124	503
\$15,000	2,829	3,668	839
\$20,000	4,247	5,481	1,234
\$25,000	5,877	7,565	1,688
\$50,000	17,201	22,041	4,840
\$100,000	46,403	59,373	12,970

Married couple,¹ 2 dependents

Income after deductions but before exemptions	A year ago	Under H. R. 4473	Tax increase
\$2,000			
\$3,000	\$100	\$135	\$35
\$5,000	432	585	153
\$8,000	974	1,296	322
\$10,000	1,361	1,791	430
\$15,000	2,512	3,263	751
\$20,000	3,888	5,022	1,134
\$25,000	5,476	7,052	1,576
\$50,000	16,578	21,245	4,667
\$100,000	45,643	58,401	12,758

¹ Income earned by one spouse.

The effect of a flat 12½-percent increase is to make the marginal rate of tax and the tax burden on many taxpayers even higher than during World War II. This is particularly true of all single persons who do not qualify for the special head-of-the-household exemption and married couples in community-property States. In these cases the marginal rate will become higher than it was during World War II on all surtax net income over \$4,000.

On certain single individuals the tax burden will be even higher than that imposed in Canada.

At this point, Mr. Chairman, I submit for the RECORD three tables showing the decrease on the take-home pay of various classes of taxpayers under the flat 12½-percent increase provided for in H. R. 4473:

Take-home pay

SINGLE PERSON, NO DEPENDENTS

Income after deductions but before exemptions	Decrease in take-home pay	Percentage decrease in take-home pay
\$1,000	\$10	1.1
\$2,000	35	2.0
\$5,000	118	2.9
\$10,000	305	4.0
\$20,000	868	6.6
\$25,000	1,225	8.1
\$50,000	3,299	14.0
\$100,000	8,033	24.2

MARRIED COUPLE,¹ NO DEPENDENTS

Income after deductions but before exemptions	Decrease in take-home pay	Percentage decrease in take-home pay
\$2,000	\$20	1.1
\$5,000	95	2.2
\$10,000	236	2.9
\$20,000	609	4.0
\$25,000	841	4.6
\$50,000	2,449	8.1
\$100,000	6,597	14.0
\$500,000	29,613	30.7

MARRIED COUPLE,¹ 2 DEPENDENTS

Income after deductions but before exemptions	Decrease in take-home pay	Percentage decrease in take-home pay
\$3,000	\$15	0.5
\$5,000	65	1.5
\$10,000	199	2.4
\$20,000	558	3.6
\$25,000	784	4.2
\$50,000	2,361	7.6
\$100,000	6,489	13.5
\$500,000	29,571	30.3

¹ Income earned by 1 spouse.

You will note from these tables how the percentage decrease in take-home pay goes as high as 30 percent. That the increased revenue which we gain from the flat 12½-percent increase is insignificant in comparison to the damage done by sharply increasing the already steeply graduated rates in the middle and upper brackets is shown from the following facts:

Even before enactment of H. R. 4473 confiscating all normal and surtax net income over \$10,000 will yield only an additional \$3,500,000,000 in taxes—or just enough to pay for the Truman budget for 18 days.

Confiscating all normal and surtax net income over \$26,000 will produce only an additional \$713,000,000 in taxes—or just enough to pay for the Truman budget for 4 days.

Confiscating all normal and surtax net income over \$100,000 would yield only an additional \$39,000,000 in taxes—or just enough to pay for the Truman budget for 5 hours.

After enactment of H. R. 4473 confiscating all taxable income over \$10,000 will yield only \$3,000,000,000; over \$26,000 will yield only \$627,000,000; and over \$100,000 will yield only \$34,000,000.

Under existing tax rates the ratio of tax paid to take-home pay in the case of individuals with adjusted gross income of under \$5,000 is 9 percent and for those of \$5,000 and over it is 24 percent. Instead of maintaining this ratio, H. R. 4473 will increase the disproportion of these ratios substantially.

High progressive rates, of course, have no deflationary effect because the tax is

siphoned away from dollars that would be saved and not dollars which would be spent for consumers' goods. Any intelligent and realistic tax program, particularly a tax program which is intended to act as a brake on inflation, should encourage savings and discourage consumer consumption. In this respect, as in all others, H. R. 4473 is a failure.

Mr. Chairman, the flat 12½-percent increase provided for in H. R. 4473 is a "soak the lower income" groups even harder tomorrow by destroying the "middle and upper income" groups today tax policy. It is excessive taxation without justification, and the working men and women of this country are opposed to it.

CORPORATE INCREASE

Less than 12 months ago the top corporate rate was 38 percent.

H. R. 4473 raises the regular corporate tax rate to 52 percent, extends the combined defense excess-profits tax rate of 82 percent to one-quarter of a company's normal earnings, and raises the over-all ceiling to 70 percent—all retroactive to January 1, 1951.

The effect of these provisions is to increase within less than a year the average tax on corporations from 37 cents on the dollar to 58 cents—an increase of more than 20 percentage points in the average tax rate, or a 58-percent increase in corporate taxes. During the past 12 months corporate profits have increased approximately 20 percent.

Mr. Chairman, I submit for the RECORD some tables which show the amount of taxes payable at current level of corporate profits a year ago with the amount which will be paid after enactment of H. R. 4473:

(Dollars in millions)

Taxable net income classes	Number of corporations	Taxable net income ²	Income and excess profits tax liabilities ¹		
			A year ago ²	H. R. 4473 ²	Percent increase
\$0 to \$25,000	292,491	\$2,161	\$470	\$648	37.9
\$25,000 to \$50,000	47,192	1,566	479	608	26.9
\$50,000 to \$100,000	30,477	2,018	772	1,027	33.0
\$100,000 and over	45,022	39,311	15,019	24,142	60.7
Total	415,182	45,056	16,740	26,425	57.9

¹ Based upon a level of profits before tax (Department of Commerce basis) of \$48 billion.

² Excludes \$1,200 million of capital gains subject to alternative tax of 25 percent under present law.

An idea of the increased tax imposed by H. R. 4473 over the tax burden just 12 months ago on various size corporations, even though they have no increased earnings, is shown below:

Earnings	Tax a year ago	Tax under H. R. 4473	Percent increase
\$100,000	\$38,000	\$54,000	42
\$200,000	76,000	113,500	49
\$500,000	190,000	292,000	54
\$1,000,000	380,000	589,500	55
\$10,000,000	3,800,000	5,944,500	56

Now, Mr. Chairman, must the New Deal try to fool all the people of the country all the time?

They know, and we know, that corporate taxes are for the most part passed on to them in the form of higher prices.

They know that corporate taxes are only hidden taxes.

They know that they are going to have to pay the major share of the increased corporate taxes in the way of higher prices for the very necessities of life. This has always been the case because taxes are essentially no different from other costs of doing business.

Everyone agrees that corporate taxes are the most inflationary type of tax and this will be particularly true under H. R. 4473, which in effect creates a 42-cent dollar for the entire corporate productive forces of the country. In many cases the value of the corporate dollar will be as little as 18 cents. Padded expense accounts, fancy hotel suites, big limousines, private planes charged to the expense account—this will be the result of enactment of H. R. 4473.

Dividend disbursements to the approximately 11,000,000 or 12,000,000 stockholders in the country represent less than 5 percent of all personal income. Dividends are already taxed twice—once in the corporation and again in the individual.

It is not going to reduce inflation if by increasing the corporate tax to a 58-percent rate within this 12 months' period a reduction in corporate disbursements to the stockholders is made. Moreover, the expansion program is now being carried on to produce defense equipment. If there is not sufficient money after taxes to pay for the necessary expansion, corporations will sell their holdings in Government securities or borrow. Both methods are, of course, inflationary.

EXCESS-PROFITS TAX

The Treasury Department recommended an increase to 55 percent in the corporate tax rate.

Although Republican members were not permitted to attend the meeting during which the decision was made we judge that the Democratic members of the committee must have realized that a 55 percent regular corporate rate—15 percentage points higher than during World War II might seriously jeopardize the defense program and would impose an impossible tax load on small corporations.

But they reached not only the same but a worse result by the dishonest method of agreeing in their caucus to tax 25 percent of a company's normal earnings at the 82 percent combined excess profits tax rate, and H. R. 4473 so provides.

The arbitrary extension of the excess-profits tax to 25 percent of normal profits completely defeats the objective of making the excess profits tax apply to only profits derived from the defense program for which it was intended. This action, together with the increase in the ceiling relief provision from 62 percent to 70 percent will produce many rank inequities.

Let me give you just one example which will shock the conscience of any person who believes our tax laws should be applied equitably:

As the result of H. R. 4473 if a \$100,000 base period income corporation has \$200,000 of current earnings from the defense program, its percentage tax increase is only 10.57 percent, or approximately one-half of that of a \$50,000 corporation which has no increase in earnings over the 1946-49 period.

I need not labor this point further to show what can happen to our tax laws when they are written by party caucus and not with true minority representation.

THE NEW 20-PERCENT WITHHOLDING

H. R. 4473 imposes a 20-percent withholding on corporate-bond interest, dividend disbursements, and on royalties, patents, and copyrights irrespective of whether the recipient owes any taxes. It is estimated that approximately \$500,000,000 is currently being received by individuals who have no income-tax liability or by tax-exempt institutions such as churches and hospitals from the sources. Applying the 20-percent withholding to this amount means that approximately \$100,000,000 will be withheld by the Government from individuals who owe no taxes and from tax-exempt institutions.

In the case of withholding on wages and salaries established in the Current Tax Payment Act of 1943, the amount withheld from an employee is geared to the number of the taxpayer's dependents and his actual tax liability. The new 20-percent withholding, as provided in

H. R. 4473, will, however, be made irrespective of the number of the recipient's dependents. Let me show you what this proposal really means to the little taxpayers of the country. Take, for example, an elderly couple who may have interest from corporate bonds and a few dividends which bring in \$800 a year, and together with the husband's retirement pay have a yearly income of \$2,400. This couple will have no tax liability but they will be out of pocket \$160 next year as the result of withholding 20 percent on their \$800. Sometime, around the middle of the following year, they will, if a proper claim for refund is made, be reimbursed the \$160, but of course by that time approximately one-half of this amount will already have been withheld on the current year's dividends, and by the end of the year they will be out of pocket the full \$160 all over again. The continuous withholding by the Government of an amount equal to approximately 10 percent of this couple's investment income will go on each year until they die or dispose of their investment. This is confiscation—nothing else but deliberate confiscation.

EXCISE TAXES

The Treasury Department recommended an increase of \$3,000,000,000 in excise taxes.

Mr. Chairman, I submit for the record a table showing the excise tax proposals recommended by the Treasury Department. I think it is important for every Member of the House to see how President Truman's tax advisers proposed to increase the excise taxes on our people.

Item	Proposed increases in rates	Estimated additional revenue in a full year
Passenger automobiles.....	From 7 to 20 percent of manufacturer's price.	\$685,000,000
Refrigerators, television sets, radios, phonographs, electric, gas, and oil appliances, and other consumer durables.	From 10 to 25 percent of manufacturer's price.	425,000,000
Alcoholic beverages:		
Distilled spirits.....	From \$9 to \$12 per gallon.....	710,000,000
Beer.....	From \$8 to \$12 per barrel.....	
Wines.....	Various.....	
Cigarettes.....	From 7 to 10 cents per pack.....	525,000,000
Cigars.....	Various.....	
Gasoline.....	From 1 1/4 to 3 cents per gallon.....	580,000,000
Miscellaneous revisions.....		110,000,000
Total.....		3,035,000,000

I also submit for the RECORD a table showing the extent to which excise taxes have increased since 1933:

Excise tax revenues for selected fiscal years, 1933-50

[Dollar amounts in millions]	
Year:	Excise taxes
1933.....	\$839
1936.....	1,531
1937.....	1,746
1938.....	1,716
1939.....	1,749
1940.....	1,867
1941.....	2,381
1942.....	3,123
1943.....	3,795
1944.....	4,461
1945.....	5,945
1946.....	6,684
1947.....	7,283
1948.....	7,410
1949.....	7,579
1950.....	7,598

As will be seen from these tables, under the Democratic administration excise tax yields have increased from \$839,000,000 in 1933 to over \$7,500,000,000 in 1950.

The Treasury proposals would have increased the yield by \$3,000,000,000 more, making the total yield from excises to almost \$11,000,000,000. This is what the Democratic administration has done for the consumers of America.

H. R. 4473 does not contain the excise recommendations of the Treasury. However, it does impose excises on certain selective new items such as electric shavers, electric dishwashers, cigarette lighters, and a 20-percent manufacturers' tax on inexpensive fountain and ball point pens and mechanical pencils. Inasmuch as no recommendations for imposing excise taxes on these new items were made, the manufacturers of

these products did not appear during the public hearings.

The fact, as clearly established by the public hearings, is that as in the case of the individual income tax and the corporate tax, excise tax rates on items now taxed have reached their limit.

During the debate on H. R. 4473 Republican colleagues on the Ways and Means Committee will point out to you the defects and inequities in many of the structural provisions contained in this legislation. I shall, therefore, not dwell on these matters. Instead, I should like to call your attention to probably the only constructive new tax contained in this bill. I refer to section 471 which provides for a new tax on professional gambling which should produce, at the very least, \$400,000,000 in additional revenue annually. Literally billions and billions of dollars are being bet every year in this country on horse races and the numbers game. The public has been shocked by the recent congressional revelations of the appalling extent of this multi-billion-dollar business. It would be unconscionable to allow this business to remain untaxed at this time when new taxes are being loaded upon almost every other conceivable source of revenue, from dishwashers to bowling alleys, and from ball-point pens to baseball bats.

The bill places a 10 percent tax on bets, principally those made with bookmakers and lottery operators, and imposes a \$50 a year occupational tax on such professional gamblers and their agents. Pari-mutuel betting is exempt. Activities such as bingo and cards are also exempt, mainly because the type of tax imposed by the bill is not suitable to these games, and because such games are frequently played on a social rather than professional basis. Moreover, the bill exempts raffles such as are occasionally conducted by churches and veterans' organizations. It is believed that the bill will cover 90 percent or more of the total professional gambling.

Opponents of the new tax say that it will be difficult to enforce. I say that if we fail to impose such a tax, it will be far more difficult to explain that failure to the American people. I believe that the tax can be enforced, and that, with conscientious administration by the Treasury, the revenue estimate of \$400,000,000 will prove conservative.

Mr. Chairman, I hold in my hand a copy of the report on H. R. 4473, the Revenue Act of 1951. The report consists of 152 pages, 140 of which consist of the report of the Democratic members of the Ways and Means Committee attempting to explain this legislation.

In all the 140 pages there is not a single mention of Government economy, not a single recommendation that President Truman and this Congress cut non-essential Government spending, not a single recommendation that this Congress impose upon the Federal Government the same control in the spending of the people's money as the Government has imposed upon the people, not a single recommendation that taxes be levied only to pay for the essential cost of Government.

And yet, Mr. Chairman, the people of America are demanding that these things be done before new taxes are imposed. Until they are done, I shall not vote for one penny more of tribute from the people.

Mr. RANKIN. Mr. Chairman, will the gentleman yield?

Mr. REED of New York. I yield to the gentleman from Mississippi.

Mr. RANKIN. Does this bill provide for an excess-profits tax?

Mr. REED of New York. Yes.

Mr. RANKIN. How much?

Mr. REED of New York. About \$700,000,000.

Mr. MILLS. Mr. Chairman, will the gentleman yield?

Mr. REED of New York. I yield to the gentleman from Arkansas.

Mr. MILLS. It is estimated that the excess-profits tax provisions in this bill will raise about \$732,000,000.

Mr. RANKIN. I was not asking about the amount it would raise, but I wanted to know what the rate would amount to.

Mr. MILLS. The over-all yield of the tax would then be between four and one-half and five billion dollars.

Mr. RANKIN. I am not talking about the amount, but the percentage of the tax; the rate.

Mr. MILLS. The rate is 30 percent, plus the 52 percent normal and surtax rate, which would make an over-all excess-profits-tax rate of 82 percent, but there is a ceiling, so that no business would pay more than 70 percent of its income.

Mr. REED of New York. Inasmuch as I have a minute left, I emphasize again the importance of cutting down nonessential expenditures of Government. There occurred in the State of New York recently a situation where a contract for certain facilities of the Army was involved. The Pentagon estimated, I think, something like \$132,000,000 for this special work. The contract was let for \$20,000,000, and an industrialist agreed to do it for \$5,000,000. That is running to some extent throughout our whole military government, and, of course, we can cut taxes if we watch these expenditures.

Mr. CURTIS of Nebraska. Mr. Chairman, will the gentleman yield?

Mr. REED of New York. I yield to the gentleman from Nebraska.

Mr. CURTIS of Nebraska. Mr. Chairman, the distinguished gentleman from New York has made an excellent statement, and the statement of the chairman, the distinguished gentleman from North Carolina [Mr. DOUGHTON], was excellent. I think the RECORD should show, however, that the House has been in session almost 2 hours in the consideration of a \$7,000,000,000 tax bill, and that the taxpayers are barred from the galleries. There are men at the gallery doors, and a pass issued by a Member of Congress is not honored. That is due to the fact that a little later a representative of a foreign government is going to talk here, but there is no reason for barring the public from the consideration of this huge tax bill during the 2 hours we have been working.

Mr. REED of New York. I thank the gentleman.

Mr. MILLS. Mr. Chairman, will the gentleman yield?

Mr. REED of New York. I yield to the gentleman from Arkansas.

Mr. MILLS. Knowing the gentleman as I do, and having such a high regard for him, I wonder if the gentleman would comment upon the question which numerous Members have asked of me, namely, Why does not the tax bill include some provision for the taxation of farm cooperatives? Would the gentleman comment on that?

Mr. REED of New York. I shall be very glad to answer that question.

In the first place, the farmers of this country are engaged in a basic industry. Not a wheel of industry could turn, not one, were it not for the raw materials that are produced from the ground and largely by the farmers of this country.

There was a situation prior to the farm cooperative law where the farmer was being driven to peonage back in the early twenties. A law was passed in 1926 to give some exemption relief. Then the gougers started in. They thought they could drive the farmers back into peonage where they would have to take any price that was offered. Farmers would send to the chief markets of this country their products and what would they get back? They would get back a bill for the freight. They were being pauperized, not only in one respect but in many respects.

I know why the gentleman asked the question. He is interested in the farmer just the same as I am. The gentleman knows there would be very little said in regard to this law that permits the cooperatives to be exempted from taxation if it were not for the most corrupt lobby that was ever set up in this country, to try to coerce Congress to tax the co-ops, for what? To eventually cut the throats of the farmers. I am not in that business, and I will fight this lobby to the last ditch. I am going to see that the farmers get a fair and square deal from this Congress if it is within my power to do so. The gentleman from Arkansas [Mr. MILLS] has had them before the committee. He knows what the cross-examination disclosed, a corrupt lobby. That is what these promoters are.

Mr. MILLS. One point I hoped the gentleman would discuss, in addition to what he has already said is this: Statements have been made to a great number of businessmen throughout the country that, if we would impose taxes on cooperatives, we would obtain around a billion dollars a year in additional revenue. What was the finding of the committee with respect to that?

Mr. REED of New York. The finding of the committee varied somewhat according to the years which were brought out before our committee. As I recall it, Mr. Wiggins, formerly of the Treasury, put it around \$10,000,000. Then I believe Mr. Snyder, the last time he appeared, put it at around \$55,000,000, including withholding on patronage dividends. Previous to that it was said that it would produce about \$30,000,000.

These people are going around to the businessmen and are deliberately misrepresenting the facts to them. They are assassinating the characters of the Members on the floor of this House who are the friends of the farmers.

Mr. MILLS. Was it not pointed out by the staff of the Joint Committee on Internal Revenue to our committee in executive session that there was about \$58,000,000 maximum that could be derived from taxing farm cooperatives?

Mr. REED of New York. Correct.

Mr. RANKIN. Mr. Chairman, will the gentleman yield?

Mr. REED of New York. I yield to the gentleman from Mississippi.

Mr. RANKIN. If it had not been for the cooperative-power associations that the power trusts are attacking in this way the average farmer of this country would not have seen an electric light in his house for the next 50 years.

Mr. REED of New York. I want to say further, that as the gentleman knows, the evidence under cross examination before our committee of the National Tax Equality Association, these lobbyists admitted that they had collected from the businessmen of this country over \$600,000 in contributions of not less than \$500 each; contributions of less than that, however, do not have to be reported to the Senate and the House. Also, the lobbyists admitted they were receiving in salary about \$48,000 a year.

Mr. MILLS. I want the Members of the House to know that my distinguished friend from New York has waged a fight not only in Congress, but in his own congressional district and State, over this question of the protection of the farm cooperatives. He has done a magnificent job. I know of no individual who is entitled to greater credit by the farm cooperatives than the gentleman from New York [Mr. REED].

Mr. RANKIN. Mr. Chairman, if the gentleman will yield, I want to join that statement and say that the farmers of this country do not have a better friend in the Congress in either House, on either side, than the gentleman from New York [Mr. REED].

Mr. REED of New York. I thank the gentleman very much.

The CHAIRMAN. The gentleman from New York has consumed 38 minutes.

Mr. DOUGHTON. Mr. Chairman, I move that the Committee do now rise. The motion was agreed to.

Accordingly the Committee rose; and the Speaker having resumed the chair, Mr. RAINS, Chairman of the Committee of the Whole House on the State of the Union, reported that that Committee, having had under consideration the bill (H. R. 4473) to provide revenue, and for other purposes, had come to no resolution thereon.

MESSAGE FROM THE PRESIDENT

A message in writing from the President of the United States was communicated to the House by Mr. Miller, one of his secretaries, who also informed the House that on the following dates the President approved and signed bills and

a joint resolution of the House of the following titles:

On June 14, 1951:

H. R. 2918. An act for the relief of Peter E. Kolesnikoff.

On June 15, 1951:

H. J. Res. 267. Joint resolution making an additional appropriation for the legislative branch for the fiscal year 1951, and for other purposes.

On June 16, 1951:

H. R. 1612. An act to extend the authority of the President to enter into trade agreements under section 350 of the Tariff Act of 1930, as amended, and for other purposes.

MESSAGE FROM THE SENATE

A message from the Senate, by Mr. Woodruff, its enrolling clerk, announced that the Senate had passed, with amendments in which the concurrence of the House is requested, a bill of the House of the following title:

H. R. 3880. An act making appropriations for the Executive Office and sundry independent executive bureaus, boards, commissions, corporations, agencies, and offices, for the fiscal year ending June 30, 1952, and for other purposes.

The message also announced that the Senate insists upon its amendments to the foregoing bill, requests a conference with the House on the disagreeing votes of the two Houses thereon, and appoints Mr. MAYBANK, Mr. O'MAHONEY, Mr. McKELLAR, Mr. HILL, Mr. McMAHON, Mr. SALTONSTALL, Mr. BRIDGES, and Mr. FERGUSON to be the conferees on the part of the Senate.

The message also announced that the Senate agrees to the amendment of the House to a bill of the Senate of the following title:

S. 927. An act to amend section 6 of the Central Intelligence Agency Act of 1949.

The message also announced that the Vice President has appointed Mr. JOHNSTON of South Carolina, and Mr. LANGER, members of the joint select committee on the part of the Senate, as provided for in the act of August 5, 1939, entitled "An act to provide for the disposition of certain records of the United States Government," for the disposition of executive papers referred to in the report of the Archivist of the United States numbered 51-24.

COMMITTEE ON BANKING AND CURRENCY

Mr. McCORMACK. Mr. Speaker, I ask unanimous consent that the Committee on Banking and Currency may have until midnight Saturday to file a report on the bill (H. R. 3871) relating to amendments to the Defense Production Act, and also that the minority may have permission to file their views, if they so desire.

The SPEAKER. Is there objection to the request of the gentleman from Massachusetts?

There was no objection.

KENNEDY SUBCOMMITTEE

Mr. BARDEN. Mr. Speaker, I ask unanimous consent that the subcommittee, headed by the gentleman from Massachusetts [Mr. KENNEDY], of the Committee on Education and Labor, may sit this afternoon during general debate.

The SPEAKER. Is there objection to the request of the gentleman from North Carolina?

There was no objection.

RECESS

The SPEAKER. The House will stand in recess, subject to the call of the Chair.

Accordingly (at 11 o'clock and 57 minutes a. m.) the House stood in recess, subject to the call of the Chair.

JOINT MEETING OF THE HOUSE AND SENATE TO HEAR AN ADDRESS BY HIS EXCELLENCY, GALO PLAZA, PRESIDENT OF THE REPUBLIC OF ECUADOR

The SPEAKER of the House of Representatives presided.

At 12 o'clock and 23 minutes p. m., the Doorkeeper announced the Vice President and Members of the United States Senate.

The Senate, preceded by the Vice President and its Secretary and Sergeant at Arms, entered the Hall of the House of Representatives.

The VICE PRESIDENT took the chair at the right of the Speaker, and the Members of the Senate took seats reserved for them.

APPOINTMENT OF COMMITTEE OF ESCORT

The SPEAKER. On the part of the House the Chair appoints as members of the committee to escort our distinguished visitor to the Chamber the gentleman from Massachusetts, Mr. McCORMACK; the gentleman from Massachusetts, Mr. MARTIN; the gentleman from New Jersey, Mr. EATON; and the gentleman from South Carolina, Mr. RICHARDS.

The VICE PRESIDENT. On the part of the Senate the Chair appoints as members of the Committee of Escort the junior Senator from Arizona, Mr. McFARLAND; the senior Senator from Texas, Mr. CONNALLY; the junior Senator from Nebraska, Mr. WHERRY, and the senior Senator from Wisconsin, Mr. WILEY.

At 12 o'clock and 30 minutes p. m., the Doorkeeper announced the President of the Republic of Ecuador.

The President of the Republic of Ecuador, accompanied by the Committee of Escort, entered the Chamber and stood at the Clerk's desk.

The SPEAKER. Members of the Congress, I deem it a high privilege and a distinct honor to be able to present to you the head of a great and a friendly state, our neighbor to the south made up of liberty-loving and proud people, the President of the Republic of Ecuador. [Applause, the Members rising.]

ADDRESS OF HIS EXCELLENCY, GALO PLAZA, PRESIDENT OF ECUADOR

President PLAZA. Mr. Vice President, Mr. Speaker, honorable Members of the Senate and the House, distinguished guests, it is with deep appreciation that I have accepted the honor of speaking before the Congress of the United States of America in my capacity as President of a nation which, although small in size, can bring before you a record of moral achievement in having established, after years of political upheaval and despite

As a noted businessman once said, "Include me out."

I will not vote to destroy America by cruel, discriminatory, and incentive-destroying taxation.

DISCHARGE PETITION NO. 4 ON TOWNSEND BILL, HOUSE BILL 2678

(Mr. ANGELL asked and was given permission to extend his remarks at this point in the Record.)

Mr. ANGELL. Mr. Speaker, on February 16, 1951, I introduced House bill 2678 and my colleague, the gentleman from Minnesota [Mr. BLATNIK] introduced a companion bill, House bill 2679. One or more additional bills identical in language, I understand, have been introduced by other colleagues. The bills were referred to the Ways and Means Committee on February 16.

The objective of this legislation known as the Townsend recovery plan, is to provide every adult citizen in the United States with equal basic Federal insurance, to permit retirement with benefits at the age of 60, and to cover total disability from whatever cause for certain citizens under 60; to give protection to widows with children; to provide an ever-expanding market for goods and services through the payment and distribution of such benefits in ratio to the Nation's steadily increasing ability to produce, with the cost of such benefits to be carried by every citizen in proportion to the income privileges he enjoys.

Seventy-eight House Members petitioned the Ways and Means Committee as follows:

The undersigned Members of the Eighty-second Congress respectfully request that the Ways and Means Committee report House Resolution 2679, commonly known as the Townsend plan, out of committee and to the House of Representatives, for action.

The Members signing this petition are as follows:

HOMER D. ANGELL, Oregon; JOHN A. BLATNIK, Minnesota; WILLIAM T. GRANHAN, Pennsylvania; AUGUSTINE B. KELLEY, Pennsylvania; TOBY MORRIS, Oklahoma; MICHAEL A. FEIGHAN, Ohio; CLYDE DOYLE, California; H. R. GROSS, Iowa; A. S. J. CARNAHAN, Missouri; SAMUEL W. YORTY, California; JOSEPH P. O'HARA, Minnesota; HARLEY O. STAGGERS, West Virginia; GARDNER R. WITTHROW, Wisconsin; FRED MARSHALL, Minnesota; HAROLD C. HAGEN, Minnesota; CLARE MAGEE, Missouri; USHER L. BURDICK, South Dakota; HARRY P. O'NEILL, Pennsylvania; GEORGE P. MILLER, California; WALTER S. BARING, Nevada; GORDON L. McDONOUGH, California; ROBERT T. SECREST, Ohio; CARL ELLIOTT, Alabama; NORRIS POULSON, California; WILLIAM S. HILL, Colorado; J. HARRY MCGREGOR, Ohio; KATHARINE ST. GEORGE, New York; A. L. MILLER, Nebraska; EDWIN A. HALL, New York; REID F. MURRAY, Wisconsin; EARL WILSON, Indiana; MERLIN HULL, Wisconsin; SID SIMPSON, Illinois; ROY W. WIER, Minnesota; ALVIN E. O'KONSKI, Wisconsin; FRANCK R. HAVENNER, California; PAUL CUNNINGHAM, Iowa; WAYNE N. ASPINALL, Colorado; JOSEPH R. BRYSON, South Carolina; THOR C. TOLLEFSON, Washington; W. J. GREEN, Pennsylvania; EDWARD BREEN,

Ohio; WALTER E. BREHM, Ohio; MEL PRICE, Illinois; M. G. BURNSIDE, West Virginia; HARRY R. SHEPPARD, California; EDGAR A. JONAS, Illinois; CLEVELAND M. BAILEY, West Virginia; CHARLES A. WOLVERTON, New Jersey; HENRY O. TALLE, Iowa; WESLEY A. D'EWART, Missouri; CLEMENT J. ZABLOCKI, Wisconsin; PHILIP J. PHILBIN, Massachusetts; EDWARD A. GARMATZ, Maryland; JAMES E. VAN ZANDT, Pennsylvania; WILLIAM G. BRAY, Indiana; CHARLES B. BROWNSON, Indiana; FRANK W. BOYKIN, Alabama; JOHN A. MCGUIRE, Connecticut; CLAIR ENGLE, California; JACK Z. ANDERSON, California; JOHN B. BENNETT, Michigan; HUGH J. ADDONIZIO, New Jersey; WALTER NORBLAD, Oregon; GEORGE D. O'BRIEN, Michigan; DWIGHT L. ROGERS, Florida; J. EDGAR CHENOWETH, Colorado; JAMES G. POLK, Ohio; CLINTON D. MCKINNON, California; WAYNE C. HAYS, Ohio; RAY J. MADDEN, Indiana; BYRON G. ROGERS, Colorado; FOSTER FURCOLO, Massachusetts; ADAM C. POWELL, JR., New York; RICHARD W. HOFFMAN, Illinois; W. STERLING COLE, New York; CECIL M. HARDEN, Indiana.

Representative JOHN PHILLIPS, of California, is also sponsoring this legislation.

In view of the fact that the Ways and Means Committee has taken no action on the legislation and the time is approaching for a recess of the Congress, I have filed today Discharge Petition No. 4 which is on the Clerk's desk.

I most respectfully urge all Members of the House who are interested in providing adequate security benefits for the aged, dependent widows and orphans, to sign Discharge Petition No. 4 so that the legislation may be brought to the floor for consideration. If 218 Members of the House sign it will be brought up under an open rule so that any germane amendments may be brought up and voted on.

Unfortunately in these distressing times with the ravages of inflation gnawing at the vitals of our economy and with prices of the necessities of life—food, clothing, shelter, and medicine—at an all-time high, and with the dollar shrunk to practically 50 cents in purchasing power, the old people of America, as well as all others who must depend on a fixed, small income from annuities, interest on securities or other frozen income, are put to their wits ends to find purchasing power sufficient to secure the simple necessities of life to keep body and soul together. These are the forgotten people of 1951.

The Congress has expended over \$30,000,000,000 in foreign lands since World War II in aid of the peoples of almost every area of the globe, but has overlooked the crying needs of this group of our citizens here at home, many of whom are suffering from malnutrition and lack of adequate medical and hospital care and protection from the elements.

The Federal Security Administrator has called to our attention that 50 years ago, no one was troubled by old-age insecurity. There were older people, it is true, but only some 3,000,000 Americans had passed the age of 65. Today that age group has grown to well over 11,000,000. Their number is ex-

pected to double in the next 25 years. At the same time, their proportion to the total population has been increasing. In 1900 1 out of every 25 Americans had celebrated his sixty-fifth birthday. Today the figure is 1 out of 13. Science and improved standards of living have combined to prolong youth as well as life. The people who are living longer are staying young longer. They are changing the face of America. They are presenting one of the greatest domestic challenges of our time: How are we to make the lengthened life span better, happier, and more productive?

The very first and essential step is to revamp our concepts of aging, and get rid of the strange sense of opprobrium so many of us attach to the term. Aging begins with life itself, and continues as long as life does. The fundamental strength of our democracy is the recognition and appreciation of the fact that an individual living happily and enjoying fulfillment is our richest resource. This applies to individuals of all ages. During the past 50 years there has been a change in the problem of old-age security due to our change from a rural, preponderantly agricultural society to an urban industrial society. About 60 percent of Americans now live in towns and cities over 2,500 population as contrasted with 35 percent in 1890. Seventy-five percent of our workers are employees whose incomes cease when their efficiency declines. It has become difficult, and in many cases impossible, for the family to take care of the older members. To a large extent, the family is no longer an economic unit. Fifty years ago there were 13 people of working age for every 1 over 65. The ratio now is 8 to 1; 25 years from now it will be about 5 to 1. There are now 11,000,000 people over 65 compared with 5,000,000 in 1920. In 1948 only about 1,500,000 people over 65 could support themselves on incomes from savings and investments. About 3,500,000 had no incomes. About 4,500,000 had yearly incomes of less than \$1,000. Social-security pensions were received by 1,500,000 and old-age assistance payments by 2,500,000.

Furthermore, the possibility of providing financial security for old age has been greatly restricted by the big increase that has occurred in the proportion of people's incomes which is taken from them through taxation, and especially during the past 10 years, by the reduction that has occurred in the purchasing power of incomes, particularly fixed incomes, because of price inflation. The tax bill we are now considering is confiscatory, the largest in our history, and puts a tax burden on small-income groups which takes food from their mouths. The dollar's purchasing power as applied to food is less than half what it was in 1940, and on an over-all basis it is less than 60 percent. All about us are indications of a continuing inflationary trend which will further reduce the value of our money unless it can be checked.

Notwithstanding the 1950 amendments to the Social Security Act extending the system to nearly 45,000,000 jobs or ten

or eleven millions more than were formerly covered, the major portion of persons 60 years of age and over are not embraced in the social-security program. More than 13,000 pension plans cover 7,000,000 employees in United States industry. The first United States pension was established by the Grand Trunk Railroad in 1874. Even with the extended coverage under social security and the private pension plans, millions of American citizens 60 years of age and over are dependent upon aid from the Government or some pension program or their relatives for support.

Payments to individuals for direct relief not including social security, pensions, unemployment insurance, and so on, for Federal, State, and local governments in 1934 aggregated \$745,000,000, but in 1948 it had increased to \$1,727,000,000. Payments for direct relief have increased about 20 percent a year since 1945. This shows us convincingly that the present provision for old-age security is not meeting the problem.

It has become increasingly apparent to all who have studied the problem of old-age security that the existing social-security law, even as liberalized in the last Congress, is wholly inadequate to meet the needs of the large group of citizens who will be benefited by this legislation. It is equally apparent that the legislation we are proposing will solve this problem efficiently and more equitably than the existing social-security law, and the over-all expense in the long pull will be less than society is now called upon to pay.

The Townsend plan is a self-financing, noncontributory retirement system under which beneficiaries will receive annuities as a matter of right without reference to charity or prior contributions. It is Nation-wide and covers all citizens 60 years of age or over. It is a pay-as-you-go system. Annuities will be paid currently out of currently raised revenues.

Annuities should be provided with neither the stigma of charity nor poverty. They should be given as a matter of right as dividends from the national wealth the aged have helped to create. The system should be one that would replace the complicated, arbitrary, and inequitable provisions of the existing social-security law. It should be one which will have a stimulative effect upon our economy and one which will help to make available jobs to all the young who will replace the aged as the latter move into retirement with a decent standard of living. Only noncontributory pensions will meet the needs of those now grown old who are in need because of past neglect in providing an adequate contributory retirement system.

Mr. Speaker, in behalf of myself and the other sponsors of this legislation, I appeal to all my colleagues to join in the signing of Discharge Petition No. 4 at once so that this legislation may be brought to the floor and considered upon its merits before the Congress recesses.

We would be derelict in our duty to recess and go home without providing for the elderly citizens of America who

are in distress. Charity begins at home, and while we are spending billions overseas let us not overlook our own needy on our front doorstep. The annuities provided in this legislation are not charity but dividends earned by the recipients for their labors through the years in building our America and preserving its economy. As I have said before in appealing for favorable action on this legislation, why not enact a Marshall plan for the aged of America while we are casting our eyes overseas to help the needy in foreign lands? Let us sign Discharge Petition No. 4 now.

REVENUE ACT OF 1951

Mr. DOUGHTON. Mr. Speaker, I move that the House resolve itself into the Committee of the Whole House on the State of the Union for the further consideration of the bill (H. R. 4473) to provide revenue, and for other purposes.

The motion was agreed to.

Accordingly the House resolved itself into the Committee of the Whole House on the State of the Union for the further consideration of the bill H. R. 4473, with Mr. RAINS in the chair.

The Clerk read the title of the bill.

Mr. DOUGHTON. Mr. Chairman, I yield 25 minutes to the gentleman from Tennessee [Mr. COOPER].

Mr. COOPER. Mr. Chairman, I ask unanimous consent to revise and extend my remarks and I also ask unanimous consent that the gentleman from Michigan [Mr. DINGELL] may extend his remarks in the RECORD immediately following my remarks.

The CHAIRMAN. Is there objection to the request of the gentleman from Tennessee?

There was no objection.

Mr. COOPER. Mr. Chairman, the pending bill, H. R. 4473, to provide revenue, and for other purposes, was favorably reported by your Committee on Ways and Means by a vote of 19 to 6, and is a very vital and important part of the defense program.

Very careful and thorough consideration has been given to this measure. The committee began public hearings on February 5 which extended to April 2. Everybody requesting an opportunity to be heard was given that opportunity. Two whole days were set apart for Members of the House to appear and express their views. Certainly one of the most thorough and complete hearings that has ever been held on any bill was held on this pending bill. Since April 2 the committee has been in executive session considering the provisions of this measure.

The military situation in Korea and the preservation of world peace have made it necessary to provide substantial increases in revenue to meet the national-defense program. Since hostilities began in Korea 1 year ago, your Committee on Ways and Means has reported and Congress has passed three important measures affecting the revenue. First was the Revenue Act of 1950, second, the Excess Profits Tax Act of 1950, which was finally approved January 3, 1951, and third, the Renegotiation of

Government Contracts Act which was enacted early in 1951. Now there is this fourth important measure, the Revenue Act of 1951.

The passage of this bill, along with the other two tax acts mentioned, will add \$17,000,000,000 to the Federal revenue. The Revenue Act of 1950 produced \$6,100,000,000. The Excess Profits Tax Act of 1950 is expected to produce \$3,900,000,000. An additional revenue of \$7,200,000,000 is estimated to be provided by the pending bill.

I would invite your attention to page 2 of the committee report, where there is an important breakdown of the increases imposed under these various acts.

Under the Revenue Act of 1950 individual income taxes produced \$3,438,000,000. Corporation income taxes will produce \$2,290,000,000. Excise taxes will produce \$73,000,000. Other provisions of the Revenue Act of 1950 will produce \$300,000,000. Therefore, there will be a total of \$6,101,000,000 under the Revenue Act of 1950.

Under the Excess Profits Tax Act of 1950, and, of course, you know the excess-profits tax applies only to corporations, the corporate income and excess-profits taxes will produce \$3,850,000,000.

Under the pending bill, individual income taxes will produce \$2,847,000,000, corporation income taxes will produce \$2,855,000,000, excise taxes will produce \$1,252,000,000, and other provisions under the pending bill are estimated to yield \$245,000,000 of additional revenue, making a total of \$7,199,000,000 of additional revenue. This is the largest amount of additional revenue under any tax bill in the history of this country. It is anticipated that this bill, with the revenue provided under existing law, will result in collections in the fiscal year of 1952 of \$66,300,000,000.

Under the pending bill the individual income-tax rate is raised by 12½ percent, effective September 1, 1951.

That simply means that under the provisions of this bill, individual income-tax payers will figure their income tax just as they did this year, and then increase the amount of the tax by 12½ percent. Under the pending bill, heads of households are given half the benefit of income splitting for future years.

The income-tax rate on corporations is raised by 5 percentage points. The excess-profits credit is reduced to include only 75 percent of the 1946-49 earnings, and the over-all ceiling is increased to 70 percent.

The major changes in the excise-tax provisions are to increase the tax on alcoholic beverages, tobacco, gasoline, and automobiles.

This bill imposes a new tax on wagering.

Among other changes proposed one of the most important is the provision for withholding on dividends and certain interest and royalty payments.

As you know, we already have withholding on wages and salaries and have had for a number of years. Since we already have withholding on earned income from wages and salaries, your committee felt it was only fair to provide

for withholding on investment income from dividends, interest, and royalties. Information given the committee shows that there is \$1,100,000,000 in dividends and \$1,900,000,000 in interest, making \$3,000,000,000 more from dividends and interest each year which is received by individuals in this country than is reported for income-tax purposes.

It is estimated that we will receive \$323,000,000 additional revenue from this withholding provision, which is money the Government is supposed to be receiving, but is not now receiving because these payments of dividend and interest are not reported for tax purposes.

Under the provisions of this bill, there is to be no withholding on interest on United States savings bonds, postal savings certificates of deposit, bank deposits, mutual savings bank deposits, or on amounts paid by savings and loan associations, building and loan associations, cooperative banks, homestead associations, credit unions, or any similar organization with respect to withdrawable or repurchasable shares, investment certificates or deposits, whether or not the payments are designated as interest or dividends.

Certain important provisions are included in this bill with respect to the corporation taxes. That is one of the principal sources of our revenue, as is well known. The bill makes the following changes in the corporate income tax:

The corporate normal tax is increased from 25 to 30 percent.

The surtax rate remains the same, at 22 percent.

Since corporations with incomes of \$25,000 or less are not subject to the surtax, their rate is increased from 25 to 30 percent.

The combined normal tax and surtax on corporate incomes in excess of \$25,000 is increased from 47 to 52 percent.

As was pointed out a few moments ago, it is estimated that there will be \$2,855,000,000 of additional revenue from corporations.

As has been previously stated, the changes made in this bill with respect to excise taxes are estimated to yield \$1,252,000,000 of additional revenue. The limitation of time will not permit a detailed discussion of all of those provisions with respect to the excise taxes or with respect to many other important provisions of the bill, but most of those provisions will be discussed by different Members during the course of this debate.

As was so effectively pointed out by the chairman [Mr. DOUGHTON] during his splendid statement on this bill, we have to meet the situation as it is now presented. One of three things will have to be done. Either we will have to provide additional revenue, or substantially reduce the expenditures of the Government, or again resort to deficit financing. It should be borne in mind that during the last 5 years there has been no deficit financing, and during that time some \$15,000,000,000 have been paid on the national debt. That much of the Government's obligations have been retired.

Of course, we realize that none of us especially likes the unpleasant task of imposing additional taxes, but we realize that under the situation as it now exists, additional revenue has to be provided. For the next fiscal year it is estimated that our revenue will amount to about \$60,000,000,000. Under the budget submitted by the President of the United States for the coming fiscal year, the sum of \$71,000,000,000 is included. Therefore, it will be seen there is a difference of about 10 or 11 billion dollars between the anticipated amount of the revenues for the coming fiscal year and the budgeted expenditures for that time. It is hoped, of course, and I share that hope as fervently as anybody could possibly share it, that we may be able to reduce expenses some during this year. Certainly efforts have been made in this Chamber as the various appropriation bills have been considered to reduce the amounts provided in those bills. Most of the bills that have been presented so far by the Appropriations Committee have been below the budget estimates, and some further reductions have been made by the action taken here in the House of Representatives. Certainly we do not know yet just what the situation actually will be after the Congress completes its work of passing the necessary appropriation bills for the support of the Government and for our great national-defense program.

The CHAIRMAN. The time of the gentleman from Tennessee [Mr. COOPER] has expired.

Mr. DOUGHTON. I yield the gentleman from Tennessee 10 additional minutes.

Mr. COOPER. But even if this bill is finally enacted into law as it is now presented to the House and yields \$7,200,000,000 additional revenues, the additional receipts for fiscal year 1952 will be \$5,429,000,000, we may still reasonably expect that we will have to reduce expenditures by nearly \$5,000,000,000 and reduce appropriations by that amount to be able to come out even.

The Secretary of the Treasury requested \$10,000,000 of additional revenue, which is the amount that will be necessary unless the appropriations are reduced below the amount of the budget.

The pending bill provides \$7,200,000,000 in a full year of operations, and \$5,000,000,000 in the next fiscal year. So with the enactment of this measure there would still be the opportunity, in fact, the compelling necessity to reduce appropriations by \$5,000,000,000 in order to be able to come out even and have a balanced budget and not have to resort to deficit financing.

Your committee presents this bill as the best product of its efforts that can be offered at this time and believes that this measure is worthy of your support.

Mr. ROGERS of Florida. Mr. Chairman, will the gentleman yield for a clarifying question?

Mr. COOPER. I yield.

Mr. ROGERS of Florida. I wish to have the gentleman's opinion with reference to whether farmers who borrow money from insurance companies or loan companies are required to withhold 20

percent of the interest they are supposed to pay to the loan or the insurance company.

Mr. COOPER. No; that does not apply to a case like that.

Mr. ROGERS of Florida. How would that be handled?

Mr. COOPER. There is just no change made in the present practice so far as this bill is concerned.

Mr. ROGERS of Florida. To whom does it apply? Who must withhold 20 percent of the interest paid?

Mr. COOPER. There would be withholding on dividends received from corporations and also on interest on bonds of corporations and items of that kind. I read to the House a long list of exemptions that are specifically provided under this bill, and the illustration that the gentleman gives would not be covered by the provisions of this bill so far as withholding is concerned.

Mr. JOHNSON. Mr. Chairman, will the gentleman yield?

Mr. COOPER. I yield to the gentleman from California.

Mr. JOHNSON. Would the gentleman be kind enough to explain to us the withholding of corporate dividends? Is it that the corporation takes a share, whatever the percentage is under the law, takes that share off the dividends and sends it to the Government? Or do they just report that a certain individual got a certain dividend?

Mr. COOPER. The gentleman, of course, knows how the law now operates with respect to withholding on wages and salaries.

Mr. JOHNSON. I understand that thoroughly.

Mr. COOPER. In other words, when somebody owes wages or salaries to an individual they withhold now 18 percent. Under this bill the rate would be increased to 20 percent. That amount of the tax is withheld and remitted to the Government and, of course, the individual gets his receipt showing the amount that has been withheld and paid for him as his tax, and he will claim credit for the amount withheld when he files his tax returns. Withholding on dividends and interest, except for the fact that withholding receipts are not required, will operate practically the same; in other words, if a corporation owes the gentleman a certain amount of dividends, it will simply withhold 20 percent, remit that to the Federal Government; and, of course, he will claim credit for that amount on his tax returns.

Mr. JOHNSON. Mr. Chairman, will the gentleman yield for a further question?

Mr. COOPER. I yield.

Mr. JOHNSON. Does that apply to all corporations whether they do interstate business or not? Does it apply to every domestic corporation?

Mr. COOPER. It applies to all dividends and all interest except those specifically exempted, as I have heretofore stated.

Mr. YORTY. Mr. Chairman, will the gentleman yield?

Mr. COOPER. I yield to the gentleman from California.

Mr. YORTY. The gentleman has referred, I believe, earlier this morning to a tax on illegal activities. It seems to me it is important to clear up the fact that these illegal activities are not activities made illegal by Federal law. The Federal Government has no moral code. For instance, we do not interfere with activities in the State of Nevada which are perfectly legal there but illegal in other places. The Kefauver committee has caused many people to think that much of the local lawlessness is due to lax Federal enforcement when, in fact, we have no jurisdiction and those crimes are committed because of lax local enforcement. In addition to lax local enforcement we are refusing them to, in addition to that, escape Federal taxes.

Mr. COOPER. The gentleman has stated the situation very well. Of course, as I undertook to say, we are not in any sense condoning any of these illegal activities. We are just as much opposed to them as anybody could possibly be; but we are told that there are billions of dollars every year made through activities of this kind. We want to try to see to it that a tax is collected on those activities.

Mr. MARSHALL. Mr. Chairman, will the gentleman yield?

Mr. COOPER. I yield to the gentleman from Minnesota.

Mr. MARSHALL. The Committee on Ways and Means, in considering a previous tax measure, did what I thought was a worthy thing in attempting to cut down the interest payment on overpayments of income tax. That was thrown out in the other body. I wonder if the gentleman could tell me what the plans of this committee might be in reference to this revenue measure or any future measures in connection with trying to close that loophole?

Mr. COOPER. As the gentleman points out, it is a matter that has received careful consideration. As I remember it now, in a previous measure reported by the Ways and Means Committee, and passed by the House, a provision of that nature was included but was taken out in the other body. It is one of those things we will have to give further consideration to. We recognize that there is considerable merit in the position taken by the gentleman from Minnesota. Many other Members have taken that position and quite a number of bills have been introduced by various Members of the House seeking to accomplish that result.

Mr. MARSHALL. As I recall, that runs into a sum of approximately \$50,000,000 annually in interest on overpayments of income tax.

Mr. COOPER. At the moment, I do not recall the exact amount. I believe the provision in the 1950 revenue bill, as passed by this House, to cut interest on refunds from 6 percent to 3 percent would have saved \$45,000,000 a year.

Mr. MARSHALL. It is a considerable amount.

Mr. COOPER. There has been considerable interest in it and Members of the House have introduced bills along that line. I feel confident that the committee will give further attention to it.

Mr. MARSHALL. I know that the committee and the House have been very cognizant of the fact and have been working on it. It was merely the interest that people have shown in this matter that prompted me to ask the question of the gentleman.

Mr. LANTAFF. Mr. Chairman, will the gentleman yield?

Mr. COOPER. I yield to the gentleman from Florida.

Mr. LANTAFF. I notice from the estimates that approximately \$400,000,000 will be derived in revenue from the proposed tax on bookmakers.

Mr. COOPER. Wagering.

Mr. LANTAFF. I am wondering whether or not the effect of requiring an occupational tax and providing that the collector shall make a list public of all those engaged in bookmaking activities will not have the desirable effect of putting these bookmakers out of business and that little revenue will actually be received from this source?

Mr. COOPER. Many of us feel it would be a desirable thing to put them out of business and to the extent they are put out of business, of course, there will be no revenue. To the extent they stay in business and make money we propose to get some revenue out of it.

Mr. LANTAFF. In any event, the end result of this provision will be a desirable accomplishment.

Mr. COOPER. We feel to put them out of business would be desirable and for the best interest of the country, but if they do stay in business and make money from that source we propose to try to get some of it as revenue for the Government.

Mr. JONAS. Mr. Chairman, will the gentleman yield?

Mr. COOPER. I yield to the gentleman from Illinois.

Mr. JONAS. As I understand the provision in the tax law which the gentleman from Tennessee has referred to that deals with illicit and illegal business was put in there for the purpose of collecting additional revenue, to accelerate what revenue is now being planned under the provisions of the bill.

Mr. COOPER. Of course, the purpose of that provision in this bill is to secure additional revenue.

Mr. JONAS. I want to cite a situation to the gentleman and I would like to get his reaction. In my State of Illinois, both under the Constitution and the statutes passed in pursuance thereof, it is provided that it is illegal to have any gambling paraphernalia in your possession or to conduct any business that depends upon gaming or chance or lottery. For instance, take a slot machine: Whether it works or not, in the eyes of the law in Illinois it is a crime per se to have it in your possession, and it is another crime if you play the machine. Now, I understand the Government is presently already licensing slot machines; in other words, they give you a license and they say to the owner, "You can operate that machine." Assuming that is in my State. Secondly, you have a provision in this bill that you will charge a bookmaker \$50 occupational

tax, which is nothing more or less in layman's terms than a license to do business. Now, by the wildest stretch of the imagination, and giving this section of the law the most liberal interpretation, does the gentleman for 1 minute take the position or assume that a bookmaker in Chicago, Ill., who operates now surreptitiously to some extent, would come to the Government of the United States and say, "Here is my address and here is my business, and here is your \$50, and I am now operating under cover, but I want to be exposed for \$50 and I want to make myself amenable to the law." Where is the consistency and the practicability of that kind of a law?

Mr. COOPER. Of course, it is doubtful whether they will come in and willingly pay this occupational tax, but whenever you catch one who is doing that kind of business and has not paid the occupational tax, you have an opportunity of assessing an additional penalty against him for failure to do that.

Mr. JONAS. Do I understand that this law can be so interpreted that if a bookmaker is caught operating surreptitiously now, and he has no license, and he is doing it illegally—and if he is caught and convicted, the maximum fine is \$200—you can impose upon him an additional fine of \$50 under this law and allocate \$50 of that fine to the Government of the United States?

Mr. COOPER. Of course, this is an occupational tax.

Mr. JONAS. It is a license.

Mr. COOPER. It is levied. If a man does that kind of business without paying the occupational tax, he is violating the law, and there are certain penalties provided for the violation of that law. If there is willful evasion, the penalty would be imprisonment of up to 5 years, and a fine of up to \$10,000, or both.

Mr. JONAS. Is he not violating the law even if you give him this \$50 license in my State?

Mr. COOPER. He may be violating the law in the State of Illinois but he is not violating any Federal law that I know of unless he fails to comply with this provision.

Mr. JONAS. All this does is this: In other words, it is bait to this fellow to go out and say to him in the State of Illinois, "You are violating the law, but if you come to the Government of the United States and get a \$50 license it at least lends color that you can violate in the open?"

Mr. COOPER. No; I do not think that is the situation at all.

Mr. JONAS. I construe it that way.

The CHAIRMAN. The time of the gentleman from Tennessee has expired.
OPPOSITION TO INCREASED EXCISE TAXES IN THE
PENDING BILL

Mr. DINGELL. Mr. Chairman, in accordance with my convictions and my consistent record of irreconcilable opposition to excise taxes, I have resisted the enactment of every new excise tax included in H. R. 4473, the pending bill. In fact, at all times and at every opportunity I have steadfastly opposed every increase and new levy in the existing excise tax structure.

I will recognize the need for additional revenue to finance our defense program and to resist the threat of Communist aggression whenever and wherever it may threaten the free world. Despite the need for additional revenue, however, there is no justification in my opinion for a departure from accepted principles of taxation on the basis of ability to pay.

The continued heavy reliance upon a large group of excise taxes appears to me to conflict in principle with the opposition expressed in the platform of the Democratic Party in 1948 to a general Federal sales tax. It will be recalled that during the Republican Eightieth Congress there were unmistakable signs and outright expressions that the party then in control of the Congress was leaning in the direction of a Federal sales tax. A ranking Republican member of the Committee on Ways and Means had introduced a bill for a general manufacturers' sales tax. The then Republican chairman of the Committee on Ways and Means had appointed a so-called special tax study committee of New York bankers and Wall Street lawyers which filed a report stating:

In the opinion of our committee, excise taxes should continue to form an important part of the Federal revenue system. A case can certainly be made for strengthening the excise-tax structure.

Perhaps the best evidence of Republican support for a sales tax is their record on the repeal of the so-called temporary wartime excise taxes. When these wartime excise taxes were added by the Revenue Act of 1943, I opposed them just as I have opposed the inclusion of additional excise taxes in the pending bill. Although I was unsuccessful in avoiding the imposition of the higher wartime excises, at my insistence a provision was included in the bill providing for the termination of these taxes 6 months after the cessation of hostilities, if not earlier.

Again, although hostilities had not been terminated, I urged that repeal of the temporary excise taxes was a moral commitment upon the Congress of the highest priority and that it certainly took precedence over repeal of the excess-profits tax on corporations. When the Committee on Ways and Means was considering the Revenue Act of 1945, it was on my motion that a provision was inserted terminating these excise taxes on June 30, 1946—1 year before they would have been terminated under the provisions of the Revenue Act of 1943. Although this proposal was included in the 1945 bill as passed by the House of Representatives, the other body preferred to repeal in full the excess-profits tax and my excise-tax repealer was a sacrificial lamb upon the conference altar.

The 1946 election campaign gave Republican candidates for Congress an opportunity to pledge themselves to tax reduction generally and to excise-tax reduction in particular. The ranking minority member of the Committee on Ways and Means, Mr. Knutson, who was

soon to become, for a brief but untimely period, the chairman of the Committee on Ways and Means, introduced a bill to repeal the wartime excise taxes in an effort to capitalize on Democratic failure to enact such repeal. All Republican members of the Committee on Ways and Means promised downward adjustments in Federal excise taxes in a public statement. Yet when theirs was the responsibility the first major bill of the Republican Eightieth Congress—January 1947—was one to make permanent the temporary war excise-tax rates. That this was done in order to grant income-tax reduction for the upper brackets was publicly announced by the Republican chairman of the Committee on Ways and Means, who said that it was "the hope of the committee to be able to shift much of the burden that is now being carried by the income tax group over to the excises, at least in part" and just to make it clear, he added:

Obviously, if we are going to extend the excise field we will have to include a great many items that are not now included.

This indicates definitely the philosophy of the Republicans to shift the tax burden to the shoulders of the consumer who constitutes at least 95 percent, most of whom are in the class least able to carry the tax load.

A trifle discouraged but not surprised by the repudiation of Republican campaign promises of excise-tax reduction, I still kept up the fight. When Chairman Knutson introduced his Republican relief income-tax-reduction bill, I countered persistently with my bill to repeal the wartime excise taxes.

The Republicans concluded that Federal taxation was too complicated for the people to understand, but when President Truman took this issue to the country in 1948, after three vetoes of the Republican bill for tax windfalls for upper-bracket income and estate taxpayers, the people understood and rendered their verdict.

It gave me considerable hope and satisfaction, therefore, to introduce on the first day of the Democratic Eighty-first Congress another bill calling for the repeal of the wartime excise taxes and to see a substantial part of the provision of my bill included in the revenue bill of 1950 as passed by the House of Representatives. That bill did not go so far as I would have liked to see it go, but it did grant excise tax relief amounting to more than \$1,000,000,000 and contained provisions to make up for the loss of revenue resulting from the excise tax reductions. It did my soul good to see the Democrats grant the excise tax relief that the Republicans had promised but failed to provide. Unfortunately, however, this excise tax reduction bill was passed by the House during the first week of the Communist aggression in Korea and this action snatched excise tax reduction from our grasp just as did the Republican victory in the 1946 election.

Since the invasion of Korea, during the enactment of two major tax bills and until now, I have been successful in resisting obvious efforts to expand greatly these "super duper" sales taxes. Al-

though excise tax reduction was stricken from the 1950 bill as passed by the Senate, I was successful in obtaining agreement for insertion in the conference report a statement that—

The conferees recognize that there are inequities in our excise tax system and believe that the subject should have continuing consideration.

The necessity to abandon immediate repeal of the wartime excise taxes was bitter medicine for me. I had to acknowledge that at least temporary continuance was inevitable but it was my earnest hope that these excise taxes would soon be supplanted by the promised excess-profits taxes on the rapidly rising corporate profits. My disappointment was somewhat alleviated by expressions of Republican support of a pay-as-you-go fiscal policy and the public assurance by the ranking Republican member of the Committee on Ways and Means in a speech in the House on September 22, 1950, that—

When our war expenditures move into high gear, it will then undoubtedly be necessary to raise an additional \$10,000,000,000, or more, if we are to attempt to meet our increasing expenditures on a pay-as-you-go basis, as, indeed, we must.

When the Republican reputation for fiscal responsibility was put to the test, however, they responded by opposing the Excess Profits Tax Act of 1950 just as they now oppose higher income-tax rates on individuals and corporations contained in the pending bill, although these taxes are generally recognized as the fairest and most equitable sources of additional revenue.

Despite the recognized need for additional revenue, I regret the inclusion of \$1,250,000,000 in additional excise taxes on the consumers of the Nation. This is a most regressive and unfair method of sharing the burden of resisting Communist aggression. It is disappointing, indeed, to see the already overburdened automotive industry subjected to more than \$500,000,000 in additional excise taxes alone. The breakdown of the excise-tax load on the automotive industry, with the excise taxes under present law, the increase under the pending bill, and the total in the event the bill becomes law, is shown in the following table:

Automotive excise tax burden

(In millions)

Items subject to tax	Estimated revenue under present law	Increased revenue under the bill	Total revenue under the bill
Automobiles and motorcycles.....	\$465	\$196	\$661
Trucks, busses, etc.....	102	61	163
Automotive parts and accessories.....	94	56	150
Gasoline.....	630	210	840
Diesel fuel.....	-----	10	10
Tires and tubes.....	150	-----	150
Total automotive excise taxes.....	1,441	533	1,974

According to the estimates of the staffs of the Joint Committee on Internal Revenue Taxation, the revenue yield from excise taxes under the pending bill would

be nearly \$10,000,000,000, or almost 70 percent greater than collections in 1945—the last year of World War II. Income taxes from individuals, however, under the pending bill would be increased by little more than 50 percent above the level of 1945 individual income-tax collections. Total corporate-income and excess-profits taxes under the pending bill are estimated to yield approximately 60 percent more than the yield from these taxes in the fiscal year 1945.

It is this relatively increased dependence upon excise taxes to finance the present defense effort as contrasted with the financing of World War II which causes me the greatest concern.

I am convinced that this action coincides with the avowed purpose of a substantial segment of the Republican members of the Committee on Ways and Means and of the House to obtain eventual enactment of a Federal sales tax. I have urged that we not resort to further increase in the excise taxes and, when this failed, I proposed that these new excise taxes, as well as all the war-time excise taxes imposed by the Revenue Acts of 1941, 1942, and 1943, should terminate within a period of 2 years from the effective date of the present bill. With excise taxes approaching a total yield of \$10,000,000,000, it seems imperative to me that so regressive a tax burden should be subject to mandatory re-examination of the Congress within a very short time. That proposal, however, was also rejected by the Committee on Ways and Means, but I have thereby served notice to my colleagues and to the Members of the House that I shall remain ever alert against further extensions of the Federal excise taxes and shall, above all, oppose to the limits of my capacity and influence any effort to impose the curse of a general Federal sales tax.

Mr. Chairman, the provisions of this bill increasing the income taxes on individuals and corporations are based upon ability to pay and are required in the interest of a sound fiscal policy. The tax incentives afforded to the mining industry are essential if we are to maintain an adequate supply of raw materials for our highly industrialized economy in peacetime and for our survival in the event of war. Despite the additional excise taxes imposed, there are other worth-while tax concessions made to the average taxpayer, such as the offset feature when a home is sold at a profit and in its stead another is purchased at an inflated price. Therefore, I favor passage of the bill.

Mr. REED of New York. Mr. Chairman, I ask unanimous consent that the gentleman from Michigan [Mr. WOODRUFF] be permitted to extend his remarks at this point in the RECORD.

The CHAIRMAN. Is there objection to the request of the gentleman from New York?

There was no objection.

Mr. WOODRUFF. Mr. Chairman, drastic times call for drastic action, and the people of my district are demanding that President Truman and this Con-

gress put a quick halt to nonmilitary Government spending before imposing over \$17,000,000,000 in new taxes within less than 12 months.

H. R. 4472 is not the first tax bill since Korea. It is not the second tax increase. It is the third tax increase bill—all within the past 12 months. And, during this same 12 months' period, has the Truman administration made any real attempt at Government economy? It has not. Instead, President Truman has asked the Congress for \$71,600,000,000 in expenditures for the fiscal year 1952.

President Truman has proposed domestic-civilian expenditures totaling \$9,800,000,000. This is an increase of \$1,300,000,000 over estimated expenditures for domestic-civilian items for the current year. It is \$500,000,000 more than we spent for domestic-civilian items last year. It is \$3,700,000,000 more than we spent for domestic-civilian items in 1948, when postwar peace and prosperity were thought to be inclined toward stability. It is \$6,200,000,000 more than we spent for domestic-civilian items in 1946, when, as now, we were in a semi-war economy.

Just as in the World War II period, agencies all over the Government are again attempting to increase their expenditures on the grounds that they are contributing to the national defense.

Actually, the proposed domestic-civilian items in the President's budget include all the major socialistic programs of recent years—socialized housing, agriculture, and medicine, and federalized education. This year we are told they are imperative to preparedness and national defense.

But, Mr. Chairman, the people of my district and the people of the country want to know why the wasting of their money is permitted. They want to know why this Congress does not do something to halt the extravagance of the executive departments before raising their individual income taxes by 12½ percent.

They believe, as I believe, that at least seven or eight billion dollars could be cut from President Truman's budget without interfering with the defense program or with the essential operations of the Federal Government.

The biggest item in the budget is, of course, the \$40,000,000,000 for military spending. But there is no question that the Armed Forces are notorious for extravagance in the use of civilian manpower and expenditures of the funds appropriated by the Congress. They have been employing approximately one civilian for each two men in uniform, as compared with one civilian for each five men in uniform at the World War II peak. The military effort would be strengthened if, through greatly needed efficiency, the Military Establishment's projected civilian employment of more than 1,250,000 were reduced by at least 150,000.

And just this morning's newspapers throughout the country carried the story that the procurement subcommittee of the House Armed Services Committee showed that two ex-convicts without

money, plants, or experience, got four defense contracts amounting to \$3,300,000 through "the haphazard, naive, and negligent actions of the Armed Forces procurement officers."

This is the background against which the merits of H. R. 4473 must be judged, and it should be understood by the Congress that there will be a surplus of approximately \$4,000,000,000 for this fiscal year ending in just a few days, and that the net receipts from taxes under existing law will be \$61,000,000,000 in the fiscal year 1952. This is over \$15,000,000,000 more than it was ever thought advisable to raise through taxation during World War II.

In brief, Mr. Chairman, the issue before the Congress is whether, before imposing another \$7,000,000,000 of new taxes, President Truman and this Congress should not be made to account to the people of the country as to why there has not been a corresponding reduction in nonessential Government spending. Such a reduction could be made.

H. R. 4473 is not only excessive taxation without justification, but it is economically unsound in its major revenue-raising provisions. It will increase, rather than decrease, inflation. It will not balance the Truman budget for the fiscal year 1952.

The 12½ percent flat increase in individual tax liability not only imposes an unfair burden on the lower-income groups but amounts to almost confiscation in the upper and middle group taxpayers by increasing sharply the already steeply graduated rates. The effect of the flat 12½ percent increase is to make the marginal rate of tax and the dollar amount of the tax burden on many taxpayers even higher than during World War II. This is particularly true of all single persons who do not qualify for the special head-of-the-household exemption and married couples in community-property States. In these cases, the marginal rate will become higher than it was during World War II on all surtax net income over \$4,000.

Everyone knows that high progressive rates have no deflationary effect, because the tax comes out of dollars that would normally be saved or used for investment in our productive forces and not dollars which would be spent for consumer goods.

The effect of increasing the corporate rate from 38 to 52 percent within the past year, as is provided for in H. R. 4473, will be to increase the cost of living to all our consumers. The people in my district know that business taxes are just like any other cost of doing business, and in the end it is the consumer who pays every time.

Not only is the regular corporate rate, provided for in H. R. 4473, too high, but the Democratic members of the Committee on Ways and Means have seen fit to tax 25 percent of normal earnings at the 82 percent combined excess profits tax rate. This is, of course, grossly unfair to all the small business in my district which are not sharing in defense contract work. And this arbitrary extension of the war profits tax to one-

fourth of normal earnings makes a farce of the excess-profits-tax law. The earnings of many companies during the 1946-49 base period were less than "normal," and yet H. R. 4473 will make the 82 percent tax rate apply to one-fourth of even subnormal earnings.

Moreover, I already have in my files many examples of the severe inequities arising as the result of the statutory relief provisions under the excess-profits-tax law. For companies which do not qualify for relief, the only salvation has been the fact that, under present law, the Government cannot take more than 62 cents out of every dollar they earn. But H. R. 4473 raises the ceiling to 70 percent, which means that some companies in my district might just as well close their plants and hope that their employees can find other employment.

H. R. 4473 contains several adjustments in the excise-tax field which have long been recommended by the Republicans, but at the same time it arbitrarily imposes excise taxes on certain new selective items even though the producers of these products did not appear during the public hearings.

Another serious defect in H. R. 4473 is the new 20-percent withholding provision against taxpayers who have no tax liability, but who have a little income from stocks and corporate bonds. No justification can be made for this unjust enrichment to the Federal Government at the expense of the lower income groups who owe no taxes.

Mr. Chairman, a true pay-as-we-go program—and the only program which will halt inflation and balance the budget—calls first for a reduction of Government spending; and, secondly, for the imposition of new taxes only to the extent that they are necessary to pay for national defense and the essential operations of the Federal Government. H. R. 4473 does not, however, follow this policy. The amount of new taxes imposed by it on the people is excessive, and the method of imposing these taxes is unsound.

Mr. REED of New York. Mr. Chairman, I yield 25 minutes to the gentleman from New Jersey [Mr. KEAN].

Mr. KEAN. Mr. Chairman, the Ways and Means Committee has labored for 5 months and now we are bringing to you not a mouse but a monstrosity. But here it is and the question is—should a conscientious Member vote for or against this bill?

Just as long as this administration continues its excessive spending, we will be faced with excessive taxation. The wages of the sin of continued waste and extravagance may be the death of our American way of life.

Last January the President came before us predicting a \$2,000,000,000 deficit for this present fiscal year. Now we find he only guessed \$5,000,000,000 wrong and that there will be a budget surplus of three billions and a cash surplus of about seven billions.

Last February the President at the White House told the members of the Ways and Means Committee we would need sixteen billions in new taxes to pay as you go for the coming fiscal year.

In April Secretary Snyder said that ten billions would be enough.

Now, our Joint Committee staff estimates a deficit for the coming fiscal year, based on present taxes, of about eleven billions. But in this estimate they figure expenditures as proposed in the President's budget and take no account of any possible savings by the Congress. I think it is fair to assume that even this Democratic Congress will see the light sufficiently to reduce expenditures by three to four billions.

So that based on a full year's result of the proposed new tax take of a little over seven billions, the budget would be approximately balanced.

Many have argued that the chief necessity for the present tax bill is to prevent inflation. That in order to do this, the Treasury's income must meet the outgo.

However, if this bill passes the House tomorrow it will not immediately become law. The Senate in its dignity will take its time in considering the provisions which we have included therein. So it is evident that many of the taxes which we have enacted will not go into effect until the autumn, and taxes on this year's corporation earnings will not all be paid in fiscal 1952. Almost \$2,000,000,000 of the proposed revenue will not be available in the coming fiscal year. So even if we pass this bill, the conventional budget for fiscal 1952 will not be balanced. However, the cash budget—which is what counts in the battle against inflation—will show a substantial surplus of two billions.

If we do not pass the bill, there will be a deficit in the coming fiscal year of some seven billions, and an inflationary cash deficit of some three billions.

Now unfortunately each of us can only register one vote against the waste and extravagance of this administration. We cannot cut expenditures as we feel they should be cut. Therefore, we are faced with a condition—not a theory—that owing to excessive spending we will have a sizable deficit if we do not enact this legislation. Is it better to pass a bad bill, than no bill at all?

Let us look at what is in it. The President asked for a balanced bill: approximately one-third of the revenue from each of three sources—corporation taxes, personal income taxes, and excise taxes. One purpose was to cut down the spending power of those who are bringing about the inflation.

Secretary Snyder suggested that the excess profits tax be forgotten until next autumn when we could see from the returns how it was working out.

No one has ever proved that increasing corporation taxes was not inflationary, but though the committee cut the President's request for taxes by about three billions, it almost granted in full the most inflationary part of his request—additional taxes on corporations.

Corporations have always been a fair target. Few remember that most corporations consist merely of a large aggregation of small stockholders with moderate incomes. And the very large earnings in the past year certainly make them more of a target than ever.

The Treasury had recommended that the corporation tax be increased to 55 percent. This was not agreed upon, but in truth through devious methods the tax on the corporation which is not earning any more than it did in the base period—has been increased even to a greater extent than recommended by the Treasury.

Through the device of lowering the base for excess-profits tax from 85 to 75 percent of 1946-49 earnings, a heavy tax has been levied on what are really the normal earnings of corporations, under guise of the excess-profits tax.

In fact the tax on normal corporation income was raised to 59½ percent, 52 percent on 75 percent of their earnings, 82 percent on the remaining 25 percent. And the same Democrats who would not vote to raise the normal tax to 55 percent in an open and above-board manner, voted for this.

It is evident that they did not know any more what they were doing than when they voted on the individual income-tax schedule to tax every dollar earned over \$100,000 more than a dollar. This boner was called to their attention in committee and they later corrected it.

A 59½ percent tax on normal earnings is highly inflationary. Taxes are a cost of doing business and inevitably most of this tax will be passed on to the consumer in higher prices. The supporters of those whose demagogic leaders are the chief advocates of such taxation will be those who will suffer most through the resulting higher cost of living.

Then we have the excess-profits tax. Contrary to all the experiences in World War II; contrary to the testimony of those who lived through this period; the tax now goes to 82 percent. This leaves 18 percent for a company to keep, while Uncle Sam takes the rest.

Does anyone think for a minute that corporation executives are going to worry about wasting this 18-cent dollar? Inevitably, we will again be faced with an era of excessive expense accounts, excessive salaries, spending where it is not needed; and, of course, almost complete lack of resistance to requests for higher pay. For if it only costs the company 18 cents a day to raise an employee's pay by a dollar a day, and this might prevent a strike, certainly there will be little resistance to demands however excessive.

Of course, the employee thinks he is winning, but as everybody does the same thing prices rise, so he gains nothing in the end. And those living on pensions or fixed income are the chief sufferers. These corporate tax provisions of the bill are highly inflationary and unwise.

Now let us consider the personal income tax. The estimated take of two billion eight hundred and forty-seven million is only a little less than that which the Treasury requested. I believe that more consideration should have been given to the lowest income group who with the present high cost of living find it extremely difficult to obtain the bare necessities of life.

I believe that consideration should have been given to splitting the lowest income bracket, as I have long advocated. Certainly the average American family—a married men with two children—with an income of \$2,900—is economically worlds apart from a like-sized family with an income of say \$4,600. Why should they be taxed at the same rate?

The bill is harsh on the lower income group, but it is cold murder on the few in the high income brackets. This certainly is a soak-the-rich bill with a vengeance.

Of course no one is particularly sorry for those with \$100,000 incomes. They will always have enough to eat. They will get along some way. But the revenue is so small in this sadistic taxation of the few who have by luck or ability managed to achieve these large incomes that I am not sure whether it is jealousy, an inferiority complex, or what, which impels my Democratic friends to ask for that last pound of flesh.

Is it wise to further reduce the take-home pay of an already highly taxed man in the upper income bracket by 24 percent as we do in this bill, I doubt it.

What incentive is there for the wealthy man to use his capital in a productive way? In a way which will make more jobs and add to the Nation's wealth; when for every dollar he makes over \$80,000 he is only allowed to keep 5½ cents.

Is there any incentive for a man of ability to use that last ounce of knowledge to help in the defense effort? Will he not throw up his hands, say what is the use, and spend his time lolling in the sands of Florida instead of working.

It is the American's temperament to work and to make use of the talents which God has given him, but his patience is wearing thin.

Some figures are interesting. If a large corporation should decide that it wants to give its chief executive \$40,000 in take-home pay—not an unreasonable sum—it would have to pay him \$369,656. If it wanted to give him \$50,000 in take-home pay, it would have to pay him \$500,000. And if some corporation ever had been so foolish as to contract to give him \$100,000 take-home pay, it would, under the bill, have to pay him \$1,000,000.

There is one very serious implication resulting from these confiscatory taxes which I think this Congress should ponder very carefully—for it is all important.

Our system of taxation is a voluntary one. Outside of those subject to the withholding tax—and withholding only applies to the tax in the lowest bracket—every American voluntarily makes a return of what he owes his Government. It is true that many of these returns are audited—occasionally in the lower brackets, and annually in the higher brackets. However, in general, what he reports as his income is the taxpayer's own responsibility.

The fact that Americans have paid their taxes in the past so fully has been a source of wonder to some foreigners, as in many nations of Europe people just

do not expect to pay what they owe. So much a source of wonderment that commissions have been sent from European countries to learn why the American people pay.

So far we have had comparatively little dishonesty. But a man who is clever enough to make \$100,000 usually is clever enough to find ways to avoid paying the full taxes imposed by the Government if he feels these taxes are unfair. You remember the lack of compliance under prohibition, a law which was felt by many people to be unfair.

I believe it is possible we have reached the point where individuals who find that they are only allowed to keep 5½ cents of a dollar earned may believe they are being treated unfairly and may do everything in their power to avoid paying these taxes.

There is danger that the entire enforcement of our tax laws may be due for a breakdown if we continue to increase these excessively high rates, and that failure to pay taxes may, in the future, be no longer considered a heinous crime but something which anybody, if not a fool, should do.

Warning signs that this may occur are in sight. Treasury officials from day to day brought to the committee's attention new methods of tax avoidance which are being tried. New methods by which what is really ordinary income has been transferred to capital gains.

Though we keep trying to plug these loopholes, half a dozen are discovered for every one we plug. The device of using an expense account to deduct what are in truth personal expenses has become more and more prevalent, and this is most difficult to police.

The committee itself has recognized the hardships that certain of these taxes bring, and themselves have added such palliatives as percentage depletion to more and more industries who suffer from too high corporation taxes. We have given relief to venture capital corporations. We have given capital gain treatment to coal royalties.

The real trouble, and the reason for all these attempts at avoidance is—and I say it categorically—that taxes are now too high. They are interfering, and will interfere more and more, with the continuance of the dynamic economy which we must maintain if we are to more and more increase the standard of living of the average man.

I think that most of the members of the Ways and Means Committee realize this, but what can we do when the Congress and the administration spend more and more, with no seeming thought of the future.

Before leaving the personal income tax, I want to discuss one portion of the bill which is good and in which I am keenly interested.

Owing to the split income provision which was forced on us, thanks to the unfair advantage held by citizens who happened to live in community property states, married people now have a tremendous tax advantage over single people.

This is partially justified as married people have more responsibilities, more expenses, and usually have to maintain a family home.

However, in the present law the moment the husband dies, a widow would find herself subject to a much higher income tax, while she often had the same responsibilities. Often the only saving caused by the husband's death is a couple of hundred dollars a year for food, a few clothes, some cigarettes, and an occasional bottle of liquor.

But the widow with children still has to keep up a decent home for them, still has to feed, clothe, and educate them, while Uncle Sam is asking for a larger share of her income than before her bereavement.

To correct this inequity, this bill includes a provision which provides that the head of a family who is unmarried may calculate her income tax on a separate table which gives her one-half of the benefits which she would have had if she had been able to file a joint return.

A head of the family is described as one maintaining a home and providing over 50 percent of the upkeep thereof, in which he or she lives with unmarried children or grandchildren, whether they work or not; or one maintaining a home in which he or she lives with married children, parents, brother, sister, nephews or nieces, but only if these latter members of the family are not themselves earning a living, that is, if they do not have a gross income of over \$500.

This provision should be of great help to many widows who find that owing to their bereavement Uncle Sam has really become Uncle Shylock in seeking the widow's mite.

Coming to the excise portion of the bill, we really could have made a noticeable dent in inflation if we had placed heavier taxes on luxuries and other things which people do not need to buy. But the committee has only levied one-third of the three billions in taxes which the administration asked for in this field.

The Treasury is largely to blame for this, for instead of asking for new taxes on items not now taxed, they requested merely increased taxes on those items already heavily burdened. Certainly their recommendations were unimaginative.

So we have before us a bill which is out of balance. A bill conceived in politics. Its major features determined on by the Democrats in secret caucus. A bill which to some extent is inflationary rather than deflationary. A bill which on many points will injure the economy rather than help it. A bill in which large segments of those in business, such as co-operatives, still go tax-free. A bill in which there are still loopholes unplugged for industries favored by the Democratic majority.

It is a badly thought out bill, but still with the Government's heavy expenditures we do need the additional revenue which it provides if we are to pay as we go.

Mr. HALE. Mr. Chairman, will the gentleman yield?

Mr. KEAN. I yield to the gentleman from Maine.

Mr. HALE. I hear considerable argument that heavy taxes are the best weapons against inflation. It seems to be a favorite economic theory. I wonder if the gentleman would comment on that. Many of us would be much assisted if he would.

Mr. KEAN. Of course, to discuss that thoroughly you would have to go into the whole subject of what causes inflation. As the gentleman from New York [Mr. REED] said this morning, inflation is caused by too much money chasing too few goods. What causes inflation is when the people have more money to spend than there are goods available. The best way to stop that inflation is by persuading the people to save, either voluntarily or by practically forcing them to save through making it more difficult and uneconomical for them to make unessential purchases. Then after that, if you cannot persuade them to save, you have to tax, and take part of the excess spending power which they have, and that does prevent inflation, but a corporation tax does not prevent it at all. It depends where the taxes come from.

Mr. HALE. The point is, it seems to me, that the incentive to save is considerably diminished if one cannot have any expectation of deriving benefits from his savings.

Mr. KEAN. Of course.

Mr. HALE. If I felt that this bill was a powerful weapon against further inflation, I would certainly vote for it, but I am not entirely clear in my own mind on that point. I should like to say, if I may, that the gentleman has made an extremely fine speech.

Mr. KEAN. I thank the gentleman.

Mr. JENKINS. Mr. Chairman, will the gentleman yield?

Mr. KEAN. I yield to the gentleman from Ohio.

Mr. JENKINS. If this money that is taken away from the taxpayer was used judiciously, that is one thing, but if the Government takes it and spends it wildly, with the force of the Government behind it, it is more inflationary than if you leave it with the people.

Mr. KEAN. Yes, but the Government is going to spend the money anyway, unfortunately, owing to the action of this administration in recommending and the Congress in voting heavy expenditures.

Mr. REED of New York. Mr. Chairman, will the gentleman yield?

Mr. KEAN. I yield to the gentleman from New York.

Mr. REED of New York. I just want to observe that there is no cure for this question of inflation so long as you are constantly increasing the money in circulation, and it has been increasing so rapidly lately that it has been watered down; it is like watered milk, it does not have the purchasing power any more, and until the currency question is settled you never can cure this matter of inflation. And, the other answer to inflation is greater production and this bill does not make for greater production.

Mr. KEAN. That is true. Greater production is one of the best answers to inflation.

Mr. DOUGHTON. Mr. Chairman, will the gentleman yield?

Mr. KEAN. I yield to the gentleman from North Carolina.

Mr. DOUGHTON. I was very much interested, as I always am, in the statement made by the gentleman from New Jersey, a very able Member of this House and of our committee. He is always very attentive and very diligent in the discharge of his duties. I was very much interested in that part of his speech in which he spoke of the loss of incentive for those individuals whose tax might be in the income brackets above \$80,000 for a single person, or \$160,000 for a married person. He suggested that they would lose incentive and say, "What is the use," and perhaps strike against the Government, so far as further activity in their business is concerned. In view of the fact that their taxes are to be used for the support of their Government, money which is now badly needed in time of distress, I am wondering whether the first consideration of the businessman would not be one of great patriotism, instead of the amount of tax on additional profits from his business. Surely, after he has made enough for a living for himself and his dependents he will not openly resist contributing to his Government in time of need and distress, when our very liberty is threatened and the perpetuity of our Nation is threatened. Does the gentleman not believe that he would have sufficient incentive to go ahead, even if it took every dollar, after he had received \$80,000 over and above exemptions?

Mr. KEAN. I will answer the gentleman.

Mr. DOUGHTON. I have not finished my question.

Mr. KEAN. I am afraid that the chairman figures out that all Americans are as good citizens as he is. In time of all-out war, yes, the average American will work, and tear his heart out working, because he thinks it has to be won, but certainly, in a time when he does not think that there is an urgency or emergency he is not going to tear his heart out and get stomach ulcers and heart attacks working to improve his business which would result in more people being employed when he gets no return out of it at all and can only keep a nickel out of the dollar that he earns. He is going to Florida, he is going to leave. The gentleman knows perfectly well that a lot of doctors right today who are not in perhaps as high an income-tax bracket as that, but who may be able to keep 10 or 20 cents, will work until about the 1st of October, and then they will say, "What is the use of my working any longer," and then they go south for the rest of the winter.

Mr. DOUGHTON. If they have no higher consideration than that of profit and loss, if the motive of patriotism does not influence them, then the position of the gentleman is sound. But I do not concede that the average American businessman is going to sit down and let his

business stand idle and depreciate by neglect. I do not believe he will do that. I believe he will go on and make every dollar he can, even if every cent of it is taken in taxes for the defense of this country. That is the opinion I have, and I think it is the view of the American businessman. There may be some who place their motive entirely on the basis of profit and loss, but I do not believe that is the viewpoint of the greater percentage of the American people.

Mr. KEAN. I wish I were as optimistic as the chairman is.

Mr. REED of New York. Mr. Chairman, I ask unanimous consent that the gentleman from Illinois [Mr. MASON] be permitted to extend his remarks at this point on this subject.

The CHAIRMAN. Is there objection to the request of the gentleman from New York?

There was no objection.

Mr. MASON. Mr. Chairman, I have already fully expressed my disapproval of this tax bill. It is a monstrosity, based not upon economic needs and principles, but upon the pressures of selfish groups and even more so upon what is generally known as political expediency. I have seen only condemnation of the bill by reputable newspaper editorial writers and by competent economic analysts. My previous statement that this tax bill would result in incalculable damage to our economy has been given widespread approbation.

Having already discussed the sins of commission which are present in the bill now before us, Mr. Chairman, I wish at this time to add a few thoughts on the sins of omission which are in some ways even more flagrant. I shall be brief.

Here, Mr. Chairman, is a bill that proposes to increase the income tax on the earnings of regular corporations to 52 percent—but still will permit certain competing corporations to escape without the payment of a penny of Federal tax.

Here is a bill that proposes to increase the excess profits tax on some corporations to the confiscatory figure of 70 percent—but says not a word about the earnings of huge cooperative corporations, bidding for the same kinds of business and making identical excess profits.

Here is a bill that taxes our commercial financial institutions on the profits they make—and at the very same time gives full approval to the complete tax exemption of a third banking system, made up of building and loan, savings and loan and such associations, that has grown to a position of tremendous assets and power on its very failure to pay taxes.

Here is a bill that increases by 12½ percent the tax paid by the individual proprietor on every dime of earnings from his business—and still gives official sanction to the tax freedom of the competing cooperative store directly across the street.

Here is a bill that soaks the workingman, the clerk, the stenographer, the farmer—and yet gives majority approval to the development of monopoly by the sinister route of tax freedom. And, Mr.

Chairman, if you question that statement about tax-free monopoly I direct your attention to the arrogant tax-dodging cooperative that has so vicious a stranglehold on milk for babies in the city of Washington.

Here, Mr. Chairman, is a bill that levies heavy increases in the excise taxes on many items in common use by all our people—but it does not even attempt to adjust the inequality of taxation that exists between stock fire and casualty insurance companies and mutual fire and casualty insurance companies.

Here is a bill that actually and ridiculously exempts from present taxation—at a cost of some \$16,000,000—the tiny tax that heretofore has been collected on tickets of admission to cooperative theaters and the like.

And here is a bill that provides a withholding tax of 20 percent on the dividends of regular corporations, but gives special exemption from even this simple tax to cooperatives, savings and loan associations, mutual savings banks, favorites of the committee's majority.

Mr. Chairman, these omissions are costing the Treasury—and indirectly every corporate and individual taxpayer—about \$1,000,000,000 a year of brand new revenue that might and should be collected.

And this favoritism toward cooperatives, mutuals, savings and loan associations and other business tax-exempts that has been written into this bill as a continuation of past fiscal errors is the more remarkable because the administration itself—the President and his spokesman the Secretary of the Treasury—specifically demanded that these loopholes in the tax laws be closed.

It is even more difficult to understand these flagrant sins of omission in the face of studies made for us by the tax technicians of the Treasury Department and the Joint Committee on Internal Revenue Taxation—studies that revealed a complete unanimity of opinion among these tax experts that no valid reason exists why cooperatives, savings and loan associations, mutual savings banks and the like should not be taxed fully on their earnings, and that every reason in the world exists why they should now be made to pay their taxes just like the businesses and individuals with whom they compete.

I am disappointed, Mr. Chairman—disappointed and not a little ashamed that the committee of which I am a member should have produced so inadequate and so inequitable a revenue bill. I can only hope that the Senate will lead the way toward a better bill.

Mr. DOUGHTON. Mr. Chairman, I yield 20 minutes to the gentleman from Arkansas [Mr. MILLS].

Mr. MILLS. Mr. Chairman, we have listened with interest to the speeches that have been made for and against the bill, H. R. 4473. I wish I could report to the House today that the Committee on Ways and Means, acting as the servants of the House, had found a way to maintain this highly plausible and theoretically sound fiscal policy of pay-as-we-go by increasing revenues

sufficient to balance the budget in 1952, and yet that nobody would have to pay any more taxes as a result of our action. I am sure if I could assure you that the provisions of H. R. 4473 carried out such a prospect, there would be no opposition to the bill whatsoever.

The tax bill which is before the House will make a substantial contribution to the revenues which are needed to provide for our increased defense requirements.

There is almost unanimous agreement that we should finance the defense effort on a pay-as-we-go basis. Thus far our revenues have kept pace with the rise in expenditures largely because of the farsighted action of the Congress last year in enacting the Revenue Act of 1950 and the Excess Profits Tax Act. As a result of these timely actions, the Government is expected to run a surplus in the fiscal year which ends this month. This achievement, has contributed to the cessation of inflationary pressures during the past 2 months. If we are to keep our economy in balance we must keep our financial house in order. A pay-as-we-go policy is highly desirable and should be continued as long as it is possible to do so.

This bill is another installment necessary for the pay-as-we-go policy. It will raise revenues by about \$7,200,000,000 in a full year of operation and will increase collections in the fiscal year which begins July 1, 1951, by about \$5,300,000,000.

Let us review, for just a moment, what the fiscal situation is, not in a sense of partisan criticism one way or the other, but let us look at the facts as we Americans most of the time try to look at governmental problems.

We realize that the budget which has been submitted by the President of \$71,600,000,000 in the light of the reasoned sentiment for economy which seems to exist both here and in another body may well be reduced. In all probability that amount will be reduced. I see my good friend, the gentleman from New Jersey, of the Committee on Appropriations here. If we could be assured that this budget request which was submitted to us in January of 1951 would be the last request for expenditures in the year 1952, and that there would not be other requests for more airplanes and more tanks and all the other expenditures related to our defense program, we might feel safe in thinking in terms of trying to get enough revenue to meet expenditures of, say, \$65,000,000,000, if the House and Senate can reduce the \$71,000,000,000 request by \$6,000,000,000, or as has been suggested by some by eight or nine billion dollars.

But I think it reasonable enough to assume that perhaps a \$6,000,000,000 reduction of the \$71,000,000,000 would be the most that will be accomplished, not the most that could be accomplished, but the most that is likely to be accomplished in the way of reducing that budget.

Let us look at the revenue side. We are told by the Treasury Department that they estimate receipts of around \$58,000,000,000 in 1952. The staff of the

Joint Committee on Internal Revenue Taxation has a higher estimate. They estimate we might well take in on the basis of existing law around \$60,900,000,000. Perhaps somewhere in between those two figures would be a fair estimate of what we may take in on the basis of existing law in 1952.

If that is the case, we would be some five, six, or seven billion dollars short after having reduced the budget from \$71,600,000,000 down to about \$65,000,000,000.

With this deduction, I think the gentleman from New York, my very beloved friend, and one of the finest members of our committee, would agree. He is one of the most diligent and hardest-working members, and if he were not so young in spirit I know he would get as tired as some of us older members in years on the committee—but his great spirit keeps him going. He is there every day when we are working. The gentleman from New York made a speech on the floor of the House on September 22, 1950, in connection with the Revenue Act of 1950. The gentleman perhaps will recall his statement to the effect that if we were to remain on a pay-as-you-go basis, it would be necessary for us to find at least \$10,000,000,000 of additional revenue. We found a part of that in the excess-profits bill subsequent to the date of the gentleman's speech. But we still are striving to find the difference that it would take to remain on a pay-as-you-go basis. There seems to be no question in our minds that if we are to pay in cash and through taxes the expenditures that we in the Congress vote for, it will be necessary for us to have some \$7,000,000,000 additional for the fiscal year 1952.

Now, if that is agreed upon, then before we decide just to throw out the window the 5 months' work of the Committee on Ways and Means, we should take into account what this may involve, and what would be the probable consequences. Without any thought of injecting partisan politics into the consideration of this bill, I want to state that, on my part, I know of no secret sessions wherein policies were agreed upon by the majority members of the Committee on Ways and Means alone.

I do not know where the information came from. I will yield to any member of the committee to point out the day and the hour when Democratic members of the Ways and Means Committee got together in secret caucus and decided to write the terms of this tax bill. I know of no time when any decision was made. Yes. The Democratic members, like the Republican members, met. The Republicans meet as an entire group in a conference occasionally. We on our side meet as an entire group in a caucus occasionally. Yes; it is well for me to tell my Democratic colleagues on occasion what my thinking is about taxes. It is well for me to understand what their thinking is. But as far as any meeting ever being called for the purpose of getting the Democrats to agree on any particular provisions of this bill, I myself know of no such meeting. I

did not attend it. I do not think any of the rest of them know about it.

Mr. DOUGHTON. Mr. Chairman, will the gentleman yield?

Mr. MILLS. I yield to the gentleman from North Carolina.

Mr. DOUGHTON. I am sure there is a misunderstanding this assertion that all the major provisions were agreed upon in secret caucus by the Democratic Members. I am sure our Republican friends would not make a mistake of that kind intentionally. Taking into account all the time put together, when the Democrats met, and it was not more than once, but all put together it would not exceed 1 hour that the Democratic membership met during the 4 months of consideration of the bill.

Mr. MILLS. Then I will ask the chairman if there was at any time during that meeting to which he refers any effort made or any suggestion made that the Democrats stand together as Democrats on any provision?

Mr. DOUGHTON. None whatever.

Mr. MILLS. None whatsoever. Now let us pass over that criticism that the bill was written by the Democrats. I will tell you what is the truth, if you want to know it, and I am not divulging any secrets of what took place in executive session. Just about any provision in the bill that increased revenue was a Democratic provision. Just about any provision in the bill that decreased revenue—well, I will not say that. Perhaps my friends do not want to take credit for all of them.

Mr. BYRNES of Wisconsin. Mr. Chairman, will the gentleman yield?

Mr. MILLS. I yield.

Mr. BYRNES of Wisconsin. I wonder if the gentleman has checked the minutes, and whether he is going to stand by that statement that every time a reduction was made the motion was made and supported by the Republican side, and the contrary was true as far as motions to increase or pick up new revenue was concerned, that those motions only came from and were supported by the Democratic side. Is that the impression the gentleman wants to create?

Mr. MILLS. No. I do not say that all the motions to reduce taxes came from the Republican side, but I would say that a majority of my Republican colleagues on the committee voted for every motion that was made, irrespective of which side made the motion, if the motion involved a loss of revenue.

Mr. BYRNES of Wisconsin. That is your recollection?

Mr. MILLS. Yes. That would be my recollection.

Mr. BYRNES of Wisconsin. Have you checked recently so that you can be sure of its accuracy?

Mr. MILLS. No; I have not. My friend from Wisconsin may have voted against all of those provisions that reduced revenue. I do not just remember how he voted, and I may be in error as to how he voted, but I think in the majority of cases my statement would be right.

Mr. JENKINS. Mr. Chairman, will the gentleman yield?

Mr. MILLS. I yield to the gentleman from Ohio.

Mr. JENKINS. I would say the gentleman's statement is right in most of the cases, as far as I am concerned, because I did vote against nearly all of them.

Mr. MILLS. That is my recollection. As the gentleman knows, I voted for most of the provisions of the bill that increased the revenue.

Now, I was discussing the necessity for some \$7,000,000,000 of additional revenue to make up for what might be the deficit between what we appropriate and what we would receive under existing law. In deciding on the sources to be tapped for the purposes of this the largest tax bill in our history, the Committee on Ways and Means reviewed all of present revenue sources and also considered other possibilities. Except for the new tax on gambling, the bill relies almost entirely on the present taxes to yield the additional revenue. The committee avoided reducing the individual income-tax exemptions or other regressive tax measures because it felt that higher taxes should not be levied at the expense of those who are already hard pressed by the high cost of living.

Since the chairman and others have already made a complete report on the action taken by the committee, I should like to discuss some of the major provisions of the bill, including, first, the change in individual income taxes, second, the change in corporation taxes, and third, the structural revisions which were adopted to improve enforcement and to close loopholes. Other members of the committee will discuss the remaining features of House Resolution 4473 which time will not permit me to include in my remarks.

Mr. GROSS. Mr. Chairman, will the gentleman yield?

Mr. MILLS. I yield to the gentleman from Iowa.

Mr. GROSS. Before the gentleman concludes his remarks, I wish he would give some attention to section 306 of the bill with regard to capital gains on livestock.

Mr. MILLS. Let me answer the gentleman right now. As far as I know, and I think the gentleman's colleague from Iowa [Mr. MARTIN], who was greatly interested in the provision, will tell the gentleman that this particular provision is ideally satisfactory to the livestock people of the United States. I see my friend, the gentleman from Nebraska [Mr. CURTIS]. Am I not correct in that?

Mr. CURTIS of Nebraska. I think, generally speaking, that is true.

Mr. MILLS. They did not oppose it, in other words?

Mr. CURTIS of Nebraska. No. They are for it, even though the holding time for agriculture is 12 months, while for other industry it is 6 months.

Mr. MILLS. A 6 months' holding period.

Mr. CURTIS of Nebraska. They are supporting that position.

Mr. MILLS. They would have preferred a 6 months' holding period.

Mr. GROSS. Mr. Chairman, will the gentleman yield?

Mr. MILLS. I yield.

Mr. GROSS. That is exactly the point; why ask the farmers to hold their breeding stock for 12 months, whereas in any other matter it is a 6 months' proposition; why should there be a differential?

Mr. MILLS. Of course there should not be a differential between the farmer and anyone else in the treatment afforded tax-wise; the gentleman is right about that. But I had understood that the livestock people were very well satisfied with this provision.

Let us look, then, to the amount the bill actually raises, which is \$7,000,000,000. What is there about the bill that justifies its being returned to the committee, as some of my colleagues suggest? What is there about it that is so bad? Is it what is in the bill that is bad? Or is it what we failed to incorporate in the bill?

The gentleman and I discussed one important question earlier today—why there is nothing in the bill to modify the existing tax status of cooperatives. Some 6,000 farm cooperatives are entirely exempt from taxation. The committee did not include a suggested provision taxing cooperatives because after very careful study of the entire matter and based upon the information that had come to us from members of the staff, it was found that we would only increase the revenues of the Federal Government by about \$58,000,000 if we taxed the exempt farm cooperatives and imposed a withholding tax on the dividends or the refunds paid out to the farmers. So the committee decided not to go into that field in this bill and agreed not to do so by rather overwhelming vote.

Mr. REED of New York. Mr. Chairman, will the gentleman yield?

Mr. MILLS. I yield.

Mr. REED of New York. The gentleman is correct there; and, of course, by putting on a withholding tax it exaggerated the amount of revenue they thought the Government would get.

Mr. MILLS. That was a large part of it. Let us look then at the taxation of the individual under the bill.

INDIVIDUAL INCOME TAX

Defense of freedom is everyone's job. Everybody will have to make his contribution according to his means if our way of life continues and I am certain that everyone will want to make his contribution to the full extent of his ability. The individual income tax reaches all citizens whose income exceeds the amounts needed for covering the bare necessities of life. The individual income tax is designed to tax all citizens in accordance with their ability to pay. There can be little doubt that this tax provides an excellent framework in which all citizens can be called upon to share equitably in the cost of building the armor which will protect the liberties we cherish.

It is for this reason that we propose to raise \$2,847,000,000 or 40 percent of the required increases in revenues by

means of the individual income tax. The principle of the proposed rate increases is simple and easily understood by everybody. Every taxpayer will compute his tax exactly as he did before and will then add the defense tax of 12½ percent to the tax he would have had to pay without the proposed increase. The percentage increase in the tax will be the same for everybody; all income below \$5,000 will carry the same share in the total tax load as they did before, and so will incomes above \$5,000. In view of the high marginal rates already paid by persons in the highest income brackets it was necessary to reduce the present surtax rates for taxpayers with surtax net incomes in excess of \$80,000 for the duration of the defense tax.

The new rates are intended to become effective as of September 1, 1951, so that about one-third of the rate increase will be applicable to 1951 incomes. To facilitate the computations to be made by the taxpayer on his final return, the bill proposes a flat 4-percent increase of the taxes on 1951 income which would have been paid under present law.

By increasing everybody's taxes in the same proportion a major portion of the proposed over-all increase in revenue is not only distributed equitably but also in such a way that the increase can be easily repealed when defense needs are no longer as imperative as they are today. In fact, all present law rates remain on the statute books, and the elimination of the defense tax can be accomplished quickly and simply by removing the percentage increases and the rate adjustments in the top brackets.

We have afforded the same treatment to all taxpayers, those of less than \$5,000 of net income and those of more than \$5,000 of net income; but in the process of doing so, as my friend from New Jersey pointed out, it materialized that in certain of the very high brackets of personal income tax we would be taking more than they made; so in order to apply the 12½-percent rule across the board we have actually in this bill reduced the surtax bracket rates for the people in those high brackets. I do not mean we have reduced their taxes; we have increased their taxes, but we have not increased them by a full 12½ percent of their tax under present surtax rates.

Is there anything basically wrong in taxing an individual by applying the same rule, the same yardstick to all incomes, to all tax liabilities? The man on the street who talks to you when you go home will want to know something about how you have increased his income tax. You can ask him: "How much tax did you owe last year?" "Oh, I paid \$200 tax in 1950."

Your reply would be: "We have increased your tax by just the same percentage that we have increased the individual who owed \$10,000 tax. Each one of you has had his tax bill go up by 12½ percent."

We do not take very much credit on our side for this idea. In our committee we work in a nonpartisan way. We really got the idea from a Republican motion that was made earlier in the

consideration of this matter. The only reason we could not accept the Republican motion was that it provided for a 10-percent increase in the tax of individuals across the board, like the 12½ percent in the bill, but that would only bring in about \$2,300,000,000. We thought we needed a little bit more revenue from individuals than that, so we proposed this 12½ percent, based upon the same reasoning as the 10 percent, and this will bring in about \$2,850,000,000 or about \$550,000,000 more under the 12½ percent than under the 10 percent. For the life of me, I cannot see why 12½ percent would be a monstrosity or make the bill a monstrosity, if a 10-percent increase on the same basis would make it a good bill. It is just a question of degree. Maybe we have gone too far in our 12½ percent to suit some of our friends on the committee, but, certainly, the theory of it is the same as the motion which they made. As I recall, most of them voted for it.

Mr. SIMPSON of Pennsylvania. Mr. Chairman, will the gentleman yield?

Mr. MILLS. I yield to the gentleman from Pennsylvania.

Mr. SIMPSON of Pennsylvania. There were two distinctions between the proposal offered from our side for a 10-percent across-the-board increase and the 12½ percent which was finally adopted. In the first place, there is a saving under the 10 percent to the American taxpayers of the low-income group and of the higher-income groups of over \$500,000,000. A large part of that is a saving to the extremely low income group who are the people today being penalized most by these increases in taxes. For that reason, and as one of the two reasons, I say that the Republican proposal for a 10-percent across-the-board increase was a substantially better and a wiser proposal than the 12½ percent that is in the bill.

Mr. MILLS. The gentleman will agree with me it is just a question of degree?

Mr. SIMPSON of Pennsylvania. Yes.

Mr. MILLS. The only difference between what the gentleman says and what is in the bill, the 10 and 12½, is a matter of degree.

The CHAIRMAN. The time of the gentleman from Arkansas has expired.

Mr. DOUGHTON. Mr. Chairman, I yield the gentleman 10 additional minutes.

Mr. SIMPSON of Pennsylvania. I agree or I would not have offered the motion that the principle of an across-the-board increase is fair and equitable. I disagree as to the percentage. I also said, and I want to make this very clear, in my amendment was a proviso that we follow the course of the legislation we adopted in 1941 when we imposed a war tax of 10 percent. I wanted that formula followed. It is not followed in this proposal here.

Mr. MILLS. In all fairness, I want to ask the gentleman if what he is talking about now and if what he proposed in the committee was an exact duplicate of the old victory tax?

Mr. SIMPSON of Pennsylvania. It is the old victory tax formula.

Mr. MILLS. Then this bill is less burdensome on the individuals in the first bracket under the 12½-percent provision, and I will explain why. The old victory tax at a 10 percent rate would be more severe on the low-income groups because in the case of the old victory tax, as the gentleman knows, allowance was made for only a single exemption of \$624 and there was no credit for dependents.

Mr. SIMPSON of Pennsylvania. The gentleman does not want to confuse me, I know.

Mr. MILLS. I thought that is what the gentleman had in mind.

Mr. SIMPSON of Pennsylvania. I had forgotten the exact designation. This was a defense tax.

Mr. MILLS. In any event, it is just the difference between the 10 and the 12½ percent.

Mr. EBERHARTER. Mr. Chairman, will the gentleman yield?

Mr. MILLS. I yield to the gentleman from Pennsylvania.

Mr. EBERHARTER. May I call attention to this fact: If the increase under the 12½ percent in a man's tax under the present law amounts to \$5, the 10 percent would amount to \$4, and the same thing all along the line. If the gentleman will refer to page 7 and elucidate on that a little bit I think it would help. That is the difference between a 10-percent and 12½-percent increase across the board.

Mr. MILLS. I was going to point out to the Members who are present just what the dollars-and-cents effect of this 12½-percent defense tax is at certain levels. Let us take a single person with no dependents and a net income before exemption of \$1,000. Today he pays \$180 in taxes, and he would pay an additional defense tax of \$23, or less than 50 cents a week, under this bill. Now, for a taxpayer with a net income before exemption of \$5,000 the defense tax would amount to \$118, or slightly over \$2 more per week. That does not seem to me to be actually an unbearable burden upon the people with incomes of \$5,000 or less. Of course, it would be fine if we could find revenue and write a tax bill that did not increase their burdens at all, but it was impossible for us to do it.

The tax of a single person with no dependents with net income of \$25,000 would increase from \$9,796 to \$11,021, or by \$1,225, or \$23.55 per week. At the \$100,000 net-income level the weekly defense contribution would amount to about \$154.

A married person with two dependents would be called to make a defense contribution only if his net income before exemptions was in excess of \$2,400, since, in contrast with the victory tax of the last war, the defense tax is paid only if an individual income tax would be due also under present law. A married person with two dependents with a net income of \$5,000 would pay only \$65 more than under present law, or \$1.25 per week. At the \$25,000 net-income level the defense contribution would amount \$784, or about \$15 a week, and the tax of a married person with two dependents with net income before exemptions of \$100,000 would see his liability increased

from \$51,912 to \$58,401, or by \$125 per week.

Mr. SIMPSON of Pennsylvania. I am sure the gentleman knows that there are many individuals in the country that are living up to their budget limits today.

Mr. MILLS. That is true.

Mr. SIMPSON of Pennsylvania. Fifty cents or \$1 a week may mean the difference between necessities and lack of necessities.

Mr. MILLS. That is true.

Mr. SIMPSON of Pennsylvania. So to that individual and from his standpoint, there is a substantial difference between 10 percent and 12½ percent.

Mr. MILLS. Well, there is bound to be some difference or there would not be a difference of \$550,000,000 in the amount of revenue to be received. But, to my theory, either the gentleman's motion of 10 percent or the motion which the committee finally agreed to of 12½ percent is a fair and equitable way to increase the tax burdens. Everybody has had his tax increased by the same percentage.

CAPITAL GAINS

In line with the increase in ordinary income-tax rates, House bill 4473 provides for a 12½-percent increase in the ceiling rate on long-term capital gains. Under present law, gains from the sale or exchange of capital assets held for more than 6 months are never taxed at a rate higher than 25 percent of their face amount. This rate will be increased to 28.125 percent. In judging this increase in the ceiling rate on long-term capital gains, it should not be forgotten that the Revenue Act of 1950, which provided for the first round of increases in the individual income-tax rates, did not raise the ceiling rate on long-term capital gains. While before Korea the alternative tax effective rate was 50 percent higher than the starting rate of 16.6 percent of the individual income tax, it would be only 11 percent higher than the starting rate of 22.5 percent under the committee bill. As the alternative rate benefits particularly taxpayers in the higher income brackets, the committee felt that at least part of the pre-Korean differential between the ordinary starting rate and the alternative tax rate should be restored. This would be accomplished by raising the alternative rate by the same 12½ percent by which all individual income tax rates are being raised.

TAX ADJUSTMENT FOR HEAD OF A HOUSEHOLD

The uniform percentage increase in income tax represented by the defense tax increases the differences in the tax liability of single persons and of married persons caused by the fact that married persons are allowed to split their income before computing their tax. A single person with one dependent with net income of \$25,000 pays under present law \$2,718 more tax than a married couple with no dependents. After passage of House bill 4473, the difference would be increased to \$3,057 or 12½ percent since both rates would be increased by the same percentage. The differential in liabilities between single persons and married persons works considerable hardship particularly in cases in which a

taxpayer loses his or her spouse. The obligations to provide for the children and to maintain the home remain the same although the means to do so are often drastically curtailed.

There are various ways by which the inequalities of the present tax structure between single and married persons could be reduced. The method provided in House bill 4473 would extend half the benefits of income splitting to single persons with family responsibilities. This measure would actually reduce the present tax liabilities of a considerable number of taxpayers and lose an estimated \$56,000,000 of revenue, but I believe it is a revenue loss which we are compelled to accept in the interest of equity.

The following are the tax advantages to be gained by a taxpayer who qualifies as head of household. A single person with one dependent not eligible for the head of household status with net income of \$25,000 would pay \$10,622 or \$1,530 more than a head of household with one dependent whose liability would amount to \$9,092 and at higher income levels the difference would be even larger. Because the tax advantages are important, it is imperative to limit the abuse for purposes of tax evasion of this measure. Only persons who are not married and who maintain in their household one of their children or descendants or any other persons recognized as dependents under present law are eligible for the head of household status, provided that during the taxable year they actually furnish more than half the maintenance costs of the household.

Mr. JONES of Missouri. Mr. Chairman, will the gentleman yield?

Mr. MILLS. I yield to the gentleman from Missouri.

Mr. JONES of Missouri. There is one thing that I would like to ask that is bothering me in this bill. I am for the increase in the income tax as the gentleman has explained so well, but one thing I would like to have explained to me, and that is why the committee, in considering excise taxes, increased excise taxes on automobiles and on trucks and other forms of transportation, and I understand the committee did consider a tax on yachts and other luxury boats. Can the gentleman explain to me why that tax was not imposed?

Mr. MILLS. On yachts and boats?

Mr. JONES of Missouri. Yes; yachts and luxury boats.

Mr. MILLS. My recollection as to what we did on this subject escapes me but I will yield to my friend from Pennsylvania if he has the answer as to what the committee did.

Mr. EBERHARTER. There was a proposal to limit the amount claimed as a loss on an enterprise operated as a hobby and not primarily for profit.

Mr. MILLS. It is a question whether it is a business expense or personal expense, and if it is a personal expense it was not deductible.

Mr. EBERHARTER. That is right.

Mr. JONES of Missouri. In other words, if I would purchase a luxury yacht I would not pay any excise tax on it.

Mr. EBERHARTER. I thought the gentleman was speaking of hobby losses.

Mr. JONES of Missouri. No; I am talking about a boat. In other words, some people like to travel by automobile, some like to have a pleasure car, and some people down on the river, on the Potomac, would like to have a yacht or something like that. I think that is a luxury. Would that come under the excise tax?

Mr. MILLS. There is no excise tax on the yacht to which the gentleman refers. There is no excise tax on an airplane that anybody may fly, if he owns and operates an airplane. So far as I know, there is no tax.

Mr. JONES of Missouri. In other words, I was asking if the committee considered that.

Mr. MILLS. Such a proposal was considered, but it was contended that there would be administrative difficulties in determining whether a boat is designed for pleasure or for commercial purposes. I think as far as the tax on automobiles is concerned, that the committee was quite favorably impressed by the argument made by the automobile manufacturers, the dealers, and so forth, that an increase from 7 percent to 20 percent on automobiles would be too much of a burden to impose upon the consumer. Actually, we have raised the tax on passenger cars from 7 to 10 percent. I think everybody on the committee would agree with me that the increase was arrived at in a spirit of compromise. It was a three-point raise. The Treasury had recommended a raise from 7 to 20 percent, a 13-point increase.

Mr. JONES of Missouri. I think you were wise in not going further.

Mr. MILLS. I thought the automobile people would generally be satisfied with the treatment the committee accorded them.

Mrs. CHURCH. Mr. Chairman, will the gentleman yield?

Mr. MILLS. I yield to the gentleman from Illinois.

Mrs. CHURCH. I apologize to the gentleman for breaking into his good discussion of another part of the bill, but since excise taxes have been mentioned, I simply could not wait to ask what kind of thinking lay back of the invasion of the American home by putting an excise tax on what is now almost a necessity, certainly the dream of every woman, a washing machine, an electric drier, a mangle. At a time when our women are seeking more time to go into defense plants, you have put more burdens on their hands. I cannot understand why such a wise committee would invade the American home in this fashion.

Mr. MILLS. I had not intended to discuss the excise taxes at all. In our list of electric appliances that are not now being taxed, I know we came to the electric-sewing machine. One of the ladies who appeared as a witness before our committee convinced the committee completely that there should be no tax on sewing machines. It is my recollection that the committee declined to impose a tax on washing machines.

Mr. COOPER. The gentleman is correct on that. There is no tax on washing machines.

Mrs. CHURCH. But on the electric drier and the electric mangle there is a new excise tax, is there not, according to page 139?

Mr. MILLS. The majority of the committee decided that the tax could be justly imposed upon a mangle and upon this electric-drying machine, since a tax was already imposed on electric flat irons. I presume they are all necessities, as far as that is concerned. I would have the gentlewoman realize completely that we are not just taxing those things today that are luxuries. We are taxing many things that are actually essential. I think an automobile has become a most essential item to most families in the United States. Yet we tax it.

Mrs. CHURCH. I would assure the gentleman I am perfectly sure that the American housewife would make every sacrifice. However, I think it is going to be rather hard to explain to her why there is no tax on a yacht, if you are sending her back to her own iron and the kitchen sink.

Mr. MILLS. Those of us on the committee have actually had no experience with yachts. Most of us come from areas where they do not have yachts. We are just not accustomed to them. We do not think in terms of them.

Mr. ARMSTRONG. Mr. Chairman, will the gentleman yield?

Mr. MILLS. I yield to the gentleman from Missouri.

Mr. ARMSTRONG. May I ask the gentleman, who is making a very lucid explanation of the income-tax provisions, if I am interpreting the report correctly on page 12. I note that the total amount this bill would raise in income taxes is \$2,847,000,000, in round figures.

Mr. MILLS. That is in a full year of operation, may I say to the gentleman.

Mr. ARMSTRONG. Of that amount, from those receiving incomes of \$1,000 to \$5,000, the increase would be \$1,081,000,000.

Mr. MILLS. That is right.

Mr. ARMSTRONG. That tax would be taken from 35,860,000 taxpayers.

Mr. MILLS. The gentleman is correct.

Mr. ARMSTRONG. That is about 75 percent or more, and perhaps in the gentleman's district and in mine in the neighboring State of Missouri it would run higher than 80 percent. I am wondering if the gentleman would have us believe that it would be impossible to save \$1,081,000,000 out of this present budget and thus relieve that high percentage of taxpayers of this increase?

Mr. MILLS. That is not the position of the gentleman who is addressing the committee at all. I tried to point out in the beginning that if we save as much as \$6,000,000,000 out of the \$71,000,000,000 budget submitted by the President in January of this year it is still necessary to have some \$5,000,000,000 to \$7,000,000,000 of additional revenue.

So if we take that out it will be necessary for us perhaps to reduce the budget by seven or eight billion dollars. I am not certain as to the figure, but at least \$7,000,000,000, I would say, under the budget.

Mr. ARMSTRONG. Certainly the gentleman must be aware, as well as all the other Members of this body and the Members of the other body who make up this Congress, since this session of Congress began, and I would mention specifically the senior Senator from Virginia has pointed out how we could save \$7,500,000,000 to use the Senator's figures exactly, which would be more than the amount asked for in this total bill.

Mr. MILLS. The gentleman from Missouri understands I am not talking in terms of what the Congress could do. I am talking in terms of what the Congress probably will do and I said I thought that the most we could reasonably hope to reduce the President's budget of \$71,600,000,000 would be around \$6,000,000,000. The most we can hope to reduce it, that is. If we do that—and I would be surprised if we should—I think that is the most we can expect. If we do that, we still are short for the fiscal year 1952 by about the amount represented in this bill, or something a little bit under that.

Mr. ARMSTRONG. I hope the gentleman will allow me the observation that back home the taxpayers are wondering when we are going to come up with a suggestion that should have come up before this bill was presented to us.

Mr. MILLS. I do not suppose the gentleman's people are any different from mine. So far as I know, there is no man in my district—no taxpayer in my district—who does not want the Congress to do all that it can and do all within its power, without regard to politics or anything else, to cut out wherever anything can be cut out in this budget. But I think they realize that, even if you reduce the budget six or seven billions of dollars, you would not be on a pay-as-you-go basis without some increase in taxes. That is the position that I take, and I was referring earlier to a speech which my distinguished friend, the gentleman from New York, made on the floor of the House on September 22, 1950, when he said he thought it would require around \$10,000,000,000, and the gentleman seems to have been about right.

Mr. REED of New York. That is where we are now.

Mr. MILLS. Exactly. I am just saying the gentleman appears to be about correct in his prediction.

Mr. McCORMACK. Mr. Chairman, will the gentleman yield?

Mr. MILLS. I yield.

Mr. McCORMACK. Will the gentleman state what percentage of appropriations is connected with past wars or preparation for possible wars in the future?

Mr. MILLS. I believe it is 83 percent of the entire Federal budget.

Mr. REED of New York. Mr. Chairman, will the gentleman yield?

Mr. MILLS. I yield.

Mr. REED of New York. I said it would require \$10,000,000,000, and we have raised it \$10,000,000,000.

Mr. MILLS. In this bill, and by the excess-profits tax, yes, and we appear to be over about a billion dollars.

Mr. REED of New York. So I was correct about it.

Mr. MILLS. Yes, sir. You said after the Revenue Act of 1950, we might still need \$10,000,000,000. Subsequent to that time we raised \$3,900,000,000 from excess profits. Now we are proposing about \$7,200,000,000 here, which would make a little bit more than what the gentleman predicted. Let us look to see whether or not the provisions increasing taxes on corporations makes this bill a monstrosity, as has been charged by my good friends.

I want to say a word or two with respect to the changes in taxes on corporation and to the structural revisions in the tax laws made by the bill.

The CHAIRMAN. The time of the gentleman from Arkansas has expired.

Mr. COOPER. Mr. Chairman, I yield five additional minutes to the gentleman.

Mr. MILLS. Mr. Chairman, may I be advised when I have used 2 minutes, because I am going to quit shortly.

CORPORATION TAX INCREASE

Mr. Chairman, what have we done with corporations? The bill properly allocates a fair share of the increased revenues to corporations. Of the total yield of \$7,200,000,000, the net increase in corporation income and excess-profits taxes will account for \$2,900,000,000. As a result of these changes, corporations will still be contributing proportionately less to total tax collections than they did at the World War II peak. During the years 1942 through 1945 corporation taxes averaged about 38 percent of total revenues; even after giving effect to the present bill, corporations will contribute only about 33 percent of total tax collections.

I feel that the extraordinary increase in corporation profits resulting from defense expenditures should enable them to bear a major share of the increased demands for revenue without imposing any hardships. Corporation profits for 1951 are estimated by the Joint Committee on Internal Revenue Taxation at \$48,000,000,000 and may even exceed this amount. This represents an increase of more than 50 percent over the average postwar profits of \$31,300,000,000 and is greatly in excess of the previous record level of \$41,000,000,000 chalked up for 1950.

Of the estimated increase in revenue of \$2,900,000,000 from corporations, about \$2,100,000,000 will come from the increase in the corporation rate of 5 percent. This increase will be applied to the normal tax rate and will thereby raise the maximum amount of revenue. Because of the surtax exemption of \$25,000 the corporation income tax rate will continue to favor small business. Under the new rate schedule corporations earning \$25,000 will be taxed at an effective rate of 30 percent compared with a rate of 41 percent on a corporation with an income of \$50,000 and a maximum rate of 52 percent which will not be reached until incomes are well over \$1,000,000.

Rather than raise the entire amount of higher taxes on corporations from the income tax, the bill allocates an important part to adjustments in the

excess profits tax. This will be accomplished by reducing the excess profits credit from 85 percent to 75 percent of average base period earnings as originally proposed by the Treasury Department. This is equivalent to a rate increase of 3 percent for most corporations but will not affect those whose current earnings are less than 75 percent of their base period profits.

The committee considered the possibility of applying the full increase to the income tax rates. However, it was felt that this would not be desirable since it would bear too heavily on those corporations with substantial reductions in profits. While the profit situation is such that relatively few corporations now earn as little as 75 percent of their base period profits, some may be in this situation either because of raw-material shortages or because of difficulties incident to conversion to defense production. Reliance on reduction in the excess profits credit from 85 percent to 75 percent for part of the revenue increase from corporations thus relieves those corporations which are now suffering hardships from part of the additional tax load. It was considered desirable nonetheless to increase the normal tax rate on all corporations because we are asking everybody to make an additional contribution for defense whether or not their incomes have risen.

Another reason for reducing the excess-profits credit to include only 75 percent of base-period earnings is that it gives fuller recognition to the fact that base-period earnings were very high due to the postwar inflation of profits. Despite the fact that the present law provides a credit of only 85 percent, it is clear from corporation reports that the excess-profits credits for many are highly generous. In the aggregate, profits in the three best years out of the four in the base period averaged \$30,600,000,000; 85 percent of this amounts to \$26,000,000,000. This is higher than the profits before taxes in any of the war years. It is well to note that these figures understate the total of all the credits available to all corporations, since the best 3 out of 4 years for each individual corporation does not necessarily correspond to the best three out of four for the aggregates.

Finally, a reduction in the excess-profits credit is justified because the Excess Profits Tax Act, as finally enacted contains numerous relief provisions which were not originally in the House bill. The committee will reexamine these provisions as soon as data become available. However, it is clear that they reduce the revenues which the House expected to collect from the excess-profits tax. The reduction in the credit to 75 percent does not alter the relief provisions, but obtains more revenue from all base-period-earnings corporations. If the relief provisions are justified the distribution of the increased burden resulting from the reduction in the credit is also justified.

In order to make these rate increases fully effective a corresponding increase of 8 percentage points was made in the maximum-ceiling rate, thereby raising

the present effective ceiling from 62 percent to 70 percent. The necessity of this corresponding change in ceiling rate should be apparent. If the present ceiling rate of 62 percent were not increased, corporations now subject to the maximum rate would fail to pay any of the rate increases incorporated in the present bill. This adjustment in ceiling rate is therefore necessary to realize the full revenue effect of the proposed rate increases.

One of the results of the revised ceiling rate is to raise the level of income at which the rate limitation becomes effective. Under the present law corporations in general become subject to the ceiling rate when current income is 170 percent of base-period earnings. Under the proposed change the ceiling becomes operative at about 187.5 percent of base-period earnings. As a result, excess profits will be more effectively taxed than under present law. They will, nevertheless, be taxed less than during World War II. In 1942, for example, the ceiling rate was reached at a level of profits five times the prewar average. Between 1943 and 1945 the comparable level was three and two-thirds times the prewar level. It should also be noted that the maximum effective tax rate payable by corporations between 1943 and 1945 was 75.8 percent, compared with the newly proposed ceiling rate of 70 percent.

Despite the high level to which corporation rates have been raised, corporations with defense contracts may be able to realize the greatest profits in their history after payment of these taxes. This is because profits of many defense industries will rise many times their pre-Korean levels and also because of the advantages of accelerated depreciation on new plant equipment. It is only fair to require corporations to make a substantial contribution to the revenues under such circumstances.

The bill also increases the capital-gains rate for corporation by 12½ percent, as in the case of individuals. This will raise revenues by an estimated \$38,000,000.

After the payment of all taxes being imposed under the provisions of existing law and by this bill, corporations will have more than twice as much left to them on which to operate than they had in any year during World War II.

Oh, the charge has been made by some that this tax bill socializes American business because of the imposition of these additional taxes. I would admit, as readily as anyone, that you have the highest incentive when you have no tax burden. Of course, as you increase taxes you reduce some of the incentive on the part of the individual, and on the part of corporate business, to make profits. But we are faced with the practical situation—how much additional tax can business stand and not be injured as a result of the tax? And how little can we raise without injury to the country?

I feel as sincerely as anyone could possibly feel that business can take this additional tax and yet be left with more profits after taxes than it ever had in World War II. It can still continue to produce and still continue to supply

America with those things which are needed both here and on the Korean front.

As we distribute these burdens of taxation, I am sure that those friends of mine in American business would not have us completely overlook their capacity, ability, and desire to pay taxes in the upkeep of the Federal Government.

STRUCTURAL REVISIONS

As in the case of the Revenue Act of 1950, the committee has continued its efforts to improve compliance and enforcement of the income-tax laws and to close loopholes. The technical provisions of the tax laws are numerous and the job of closing loopholes is necessarily a slow one. Nevertheless, I believe that the changes made last year and those that are contained in this bill represent real progress in this area. I should like to call attention specifically to the following provisions: the extension of withholding to dividends, corporate bond interest, and royalties, the denial of multiple surtax exemptions and excess-profits credits to members of a controlled group of corporations, the elimination of the two for one offset of short-term loss against long-term gain, and a number of other technical amendments designed to prevent the conversion of ordinary income into capital gains.

WITHHOLDING ON DIVIDENDS, INTEREST, AND ROYALTIES

In his statement before the committee on February 5, 1951, the Secretary of the Treasury suggested that the possibility of extending withholding to dividends and interest be explored. He pointed out that "to obtain maximum compliance requires more than improvement in auditing procedures. A tax system which reaches the great majority of income recipients must employ mass enforcement methods which are as nearly automatic in their application as possible." The extension of withholding under H. R. 4473 will be a substantial contribution in this direction. It is estimated that the amount of revenue which will be recovered by this provision will be \$323,000,000 in a full year.

As Members of the House will recall, the House adopted a provision last year which was designed to withhold at a 10-percent rate on dividends only. Under the plan corporations would have been required to report the amount of taxes withheld to the stockholders at least once a year. Although corporations would have been allowed to report this information to their stockholders in any manner suited to their convenience rather than on a prescribed form, this provision was considered too burdensome for corporations. In addition, it was pointed out that the plan would involve collection of tax from tax-exempt corporations and would thus, in effect, deny them the use of funds which properly belong to them. For these reasons, the provision was eliminated from the Revenue Act of 1950 by the conferees.

The plan incorporated in this year's Ways and Means Committee bill provides for withholding at a 20-percent rate on dividends, corporate bond interest, and also on royalties. Interest on

savings accounts and on United States Government bonds are not subject to the new withholding system. The mechanics of the system have been worked out to keep to a minimum the burden of compliance on the part of those paying interest and dividends. The major improvement is that in the case of dividends and interest, the withholding agent will not be required to keep records of the amounts of tax withheld from each individual or to submit any statement to the individual at the end of the year. In practice, withholding agents will not be required to do any more paper work than they do today in connection with their usual book-keeping practices, except to remit the amounts withheld quarterly to the Collector of Internal Revenue.

To account for the proper amount of dividends and interest on his tax return, the taxpayer would merely enter the net amounts he received after withholding and then add one-quarter to the total of these amounts to obtain the gross amounts to be included in his income for tax purposes.

The problem of overwithholding on religious, charitable, and educational organizations has been overcome this year by a special provision which will permit these organizations to offset currently the amounts withheld from dividends and interest against the amounts withheld from employees. In those rare instances where the amount withheld from the tax-exempt organization exceeds the amount owed to the Government, the excess will be refunded promptly at the end of each quarter.

The committee had the assistance of the staffs of the Treasury Department and of the Joint Committee on Internal Revenue Taxation in working out these improvements for the benefit of the withholding agents and interest and dividend recipients. As is customary, the Chief of Staff of the Joint Committee on Internal Revenue Taxation held meetings with representatives of corporations and other organizations paying dividends and interest. The representatives of these organizations agreed that the withholding plan was practical, would involve but little additional cost to them, and was simpler than the plan which was considered by the Congress in 1950. Representatives of the universities were also consulted and they confirmed the opinions of the staffs that the offset system which was designed to meet the overwithholding problem in their case would eliminate the hardship that might arise if they were required to wait until the end of the year for refunds. It was on the basis of these assurances and the fact that the revenue involved is so great that the committee adopted the new withholding provision.

CORPORATE SPLIT-UPS TO OBTAIN MULTIPLE EXEMPTIONS AND CREDITS

The corporate surtax exemption of \$25,000 provided in the Revenue Act of 1950 and the allowance of a minimum excess profits tax credit of \$25,000 provides a strong incentive for splitting up corporations to gain tax advantages. By incorporating as many branches of a business as possible some taxpayers are

able to obtain multiple exemptions and credits, thus minimizing tax liabilities.

This procedure was used by some corporations during World War II, even when the specific excess profits exemption was \$10,000 as against the present \$25,000 minimum credit. The Treasury litigated some of these cases as attempts to evade or avoid tax. While tax considerations had clearly entered as one element into the corporate management decisions, the Tax Court held that the facts did not show the principal purpose was tax avoidance, and therefore, concluded that the multiple exemptions could not be denied. In one of these cases, a company which had operated since 1928, had 60 retail shoe stores, and in 1944 split up 22 of these into separate corporations. Subsequently, between 1945 and 1949, 27 additional new corporations were organized, thus creating 49 sets of credits and exemptions instead of one. In such cases, the tax benefits of corporate split-ups may run into millions of dollars.

The tax loss inherent in the multiple use of the minimum excess-profits credit and the surtax exemption is not limited to new corporations which may be created in the future by splitting up existing corporations. Where an enterprise is already divided into several corporate entities, the tax loss is the same as in the case of the newly created subsidiaries. Moreover, the unwarranted use of multiple surtax credits and excess-profits credits is as undesirable if two or more corporations are owned by the same stockholders as where one corporation owns the stock of another.

The bill deals with this problem by permitting only one surtax exemption and only one minimum excess-profits credit to a group of affiliated corporations. For this purpose such an affiliated group would include a group which under existing law may file a consolidated return. It would also include two or more corporations with 95 percent of the stock of each owned by the same person or persons. In the determination of whether an individual owns the stock of any corporation he is deemed to own the stock held by his spouse or by a corporation owned or controlled by him. Other technical provisions have been added to avoid intrafamily split-ups.

This provision is essential to confine the reduced tax burdens under the corporate income and excess-profits taxes to the small corporations, for whom they were specially designed.

OFFSET OF SHORT- AND LONG-TERM CAPITAL GAINS AND LOSSES

Section 305 of House Resolution 4473 intends to close a loophole which benefits mainly speculators in securities or commodities. Under present law, it is possible for individual taxpayers to make considerable capital gains in a given taxable year and actually not only not to pay any tax thereon but carry over to other taxable years a fictitious loss.

The mechanism by which this undesirable result is being achieved is known as the 2 to 1 offset of short-term capital losses against long-term capital gains. Since long-term capital gains—which are profits from the sale of assets

held more than 6 months—are added to income from other sources at half their face value while short-term capital losses are deductible at the full amount, it is possible for a person to offset every \$2 of long-term capital gain by a short-term capital loss of only \$1. In such a case, the taxpayer actually realizes a net gain of \$1, but does not pay any tax thereon. By properly timing his operations a speculator can make large actual gains which for tax purposes are treated as losses and used as offsets against ordinary income from other sources in the current and future taxable years, and as offset against capital gains in future years.

An example will indicate the extent to which present law permits such abuses: A speculator can realize net long-term capital gains of \$6,000,000 and net short-term capital losses of \$4,000,000, leaving him a net profit of \$2,000,000. Despite this large profit averaging about \$40,000 a week, the income-tax return under present law would show a net capital loss of \$1,000,000, since only half of the long-term capital gain or \$3,000,000 is taken into account. This individual not only can escape tax completely on his \$2,000,000 profit but can also report a loss of \$1,000,000 to be carried forward and offset against capital gains of the five succeeding years.

H. R. 4473 would put an end to the creation of such fictitious losses and to the avoidance of the payment of tax on profits from capital gains. Short-term capital gains will heretofore offset against long-term capital gains dollar for dollar, and only the resulting excess of long-term capital gains, if any, will be reduced by 50 percent for tax purposes.

OTHER LOOPHOLE-CLOSING PROVISIONS—SALE OF INVENTORY ITEMS THROUGH THE USE OF COLLAPSIBLE CORPORATIONS

The Revenue Act of 1950 attempted to close the loophole resulting from the use of "collapsible corporations" to convert ordinary income into long-term capital gains. However, recent reports of the Bureau of Internal Revenue have revealed that collapsible corporations may be used for the purpose of converting profits from sales of inventory and stock in trade into capital gains.

Generally the use of a collapsible corporation for the sale of merchandise or similar inventory items would be relatively infrequent. However, in any period during which there are large price rises, or if there are price controls that might be avoided by some artificial device, this technique to convert substantial ordinary income into capital gains with greatly reduced taxes may become fairly frequent. The bill contains an amendment which will prevent the use of collapsible corporations for this purpose.

DEALERS IN SECURITIES

The committee has been informed that dealers may shift securities from the investment to the inventory account, or vice versa. This presents the possibility of converting what would be ordinary gain into capital gain. In addition, there is a difficult administrative

task in determining in which portfolio the securities have in fact been held.

It is recognized that dealers in securities may actually acquire certain securities for investment purposes. However, it is exceedingly difficult to determine at the time of subsequent sale whether securities have actually been acquired for investment or for inventory purposes. Accordingly, the bill provides that dealers must clearly earmark the securities which they hold for investment purposes and must not be used thereafter for sale to customers. Unless these terms are complied with, the gain from the sale of these securities will be treated as ordinary income.

SALE OF PROPERTY TO CONTROLLED CORPORATIONS

There is a growing practice of using controlled corporations for tax avoidance purposes by selling assets to such corporations in order to obtain tax benefits. In the typical case a stockholder—or a small number of stockholders—controlling and owning a corporation, desires to convert ordinary income into long-term capital gain. The technique by which this is accomplished is through the sale of depreciable property owned by the stockholders to the corporation. The bill eliminates this loophole by providing that any depreciable assets sold by stockholders of a closely held corporation to the corporation be considered noncapital assets and thus that any gains from such sales be taxed as ordinary gains.

VENTURE CAPITAL COMPANIES

Before concluding, I should like to call the attention of the House to a provision in the bill which, I believe, will be extremely beneficial to the economy in the long-run. This is a provision which will foster the growth of venture capital companies.

Under the Internal Revenue Code as now written, the corporate income tax is not imposed on regulated investment companies which distribute currently at least 90 percent of their income exclusive of capital gains. One of the other tests which investment companies must meet to qualify for this treatment is that they cannot invest more than 50 percent of their assets in companies in which they hold more than 10 percent of the value of the voting securities. This rule was adopted to deny the special benefits for regulated investment companies to the usual type of holding company.

Venture capital companies are investment companies which provide capital for other companies engaging in the development or exploration of inventions, technical improvements and new processes or products. They generally provide most of the capital needed to finance the venture and thus cannot comply with the 10 percent rule. Since venture capital companies promise to serve as an instrument for directing an increasing portion of the current savings of the country into the small innovating ventures which are so important for long-run economic progress, the committee felt that it was desirable to amend our income tax laws so as to allow these companies the benefit of the provisions for regulated investment companies. This

is accomplished by waiving in certain cases the rule that not more than 50 percent of the assets of the investment company may be placed in the assets of companies in which it holds more than 10 percent of the voting securities.

To qualify for this exception, the investment company must obtain a certification from the Securities Exchange Commission that it is engaged principally in the financing of inventions and new technical developments. To forestall abuse of the provision, the bill imposes the limitation that the total of securities held in any one operating company for more than 10 years may not amount to more than 25 percent of the assets of the investment company.

The proposed amendment which has been discussed with representatives of venture-capital companies will make a real contribution to their development.

I have confined my remarks to the major provisions of the tax bill which is now before you. I believe it is an equitable tax bill. The substantial revenues provided by this bill are needed to keep the Government on a pay-as-we-go basis. I, therefore, urge the Members of the House to vote for its enactment.

Mr. BONNER. Mr. Chairman, will the gentleman yield?

Mr. MILLS. I yield to the gentleman from North Carolina.

Mr. BONNER. The gentleman has mentioned a subject in his discussion that is difficult for me to answer in the mails that I receive. The gentleman has stated that if the cooperatives were taxed on an equal basis with competitive business it would only return \$50,000,000 additional taxes. Will the gentleman explain to me why any competitive business should have a differential in their taxation? It is a hard question for me to answer.

Mr. MILLS. I want to correct the gentleman's impression. Perhaps I did say that, but I did not intend to say that if we taxed all cooperatives on the same basis that other corporations are taxed there would be only about \$50,000,000 additional revenue.

Mr. BONNER. I mean where they are competitive to each other, what excuse is there for not having equal and fair taxes? It is growing into a big business.

Mr. MILLS. If the gentleman could have been in the executive sessions of our committee, he would perhaps heard more discussion on this subject than any other. The gentleman from New York pointed out this morning his reasons why cooperatives should not be taxed. During consideration of the tax bill I offered a motion in the committee which would have increased the burdens of taxation on some of those cooperatives. Personally, I feel that a farm cooperative is a highly desirable instrumentality. It is highly essential to the farmer, and it is here today because of the inability of the farmer to market his product, and receive the price he should for it in other channels.

Mr. BONNER. If the gentleman would go into one of his cooperative stores, he would find very little difference in the price of the articles for sale.

Mr. MILLS. I am not talking about the cooperative store. I am talking about the marketing cooperative.

Mr. BONNER. They are the same thing.

Mr. MILLS. Oh, no, they are not. I disagree with the gentleman. It is the cooperative store that the gentleman's constituents complain to him about, is it not?

Mr. BONNER. That is correct.

Mr. MILLS. That is the situation with my friends in the district I represent. That is what they complain about. I offered an amendment in the committee which would have increased the tax burden on that type of operation. The consumer cooperative is not exempt from taxation under existing law, except to the extent it refunds the profits made to its consumers, to the people who do business with it—the patrons generally. If the consumer cooperative retains income that is not allocated to those people with whom it does business, that is taxed under existing law. There is no exemption whatsoever in the tax law itself for the consumer cooperative, except in the case of those purchasing supplies and equipment for the use of farmers. There is exemption in section 101, paragraph 12, for what we refer to as farm marketing cooperatives and what we refer to as farm purchasing cooperatives. Those two types of associations have been exempted, one of them since 1916 and the other since 1921, from any taxation on anything retained by it. The gentleman understands that whatever is paid out to the farmer, supplementing his price for his commodity, by one of these marketing cooperatives, is taxed in the hands of the farmer, if the farmer makes a profit that year. Anything that is paid out to the farmer which affects his cost of operation, by one of these purchasing cooperatives, reduces the cost of making the crop to the farmer and therefore affects his income. There are only about 6,000, as I understand it, of those farm cooperatives which are entirely exempt from payment of income taxes on retained reserves.

Many, many cooperatives all through the country have declined to take the exemption which they may be entitled to otherwise; they would prefer to pay a tax on their unallocated reserve; the amount which they retain. Because of the little revenue involved, I presume more than anything else, a majority of the members of the committee without any regard whatsoever to political party affiliation, voted against putting anything in this bill with respect to changing the tax treatment of cooperatives. Had my motion carried I would have been satisfied, but it was defeated.

Mr. DOUGHTON. Mr. Chairman, will the gentleman yield?

Mr. MILLS. I yield to the gentleman from North Carolina.

Mr. DOUGHTON. Is it not a fact, however, that some members of the committee felt that something more should be done about this subject of taxing cooperative organizations than was done after long discussion? We just did not have votes enough to do it.

Mr. MILLS. The Chairman is absolutely right; it was a question of each individual having his own views. As I remember, we never came nearer than four or five votes of carrying any motion with respect to these cooperatives.

Mr. REED of New York. Mr. Chairman, will the gentleman yield?

Mr. MILLS. I yield to the gentleman from New York.

Mr. REED of New York. Was it not the position of the Treasury that the cooperative store, as some call it, that when the patrons of that store, a member of the cooperative, dealt with it and bought his goods more cheaply, that it was not income to the member of the cooperative? Is that right?

Mr. MILLS. The gentleman from New York is exactly right, and I think the gentleman from New York will agree with me when I say that the proposals which came to our committee from our advisers working with the committee accorded different treatment as between these consumer co-ops and farm co-ops which I personally considered to be more favorable to the consumer co-ops. Yet it is this latter type of organization that the gentleman from North Carolina [Mr. BONNER] referred to a moment ago, the very type of organization that causes the merchants of my own area their greatest difficulty and arouses the most objection on their part. Does the gentleman agree with me?

Mr. COOPER. Mr. Chairman, will the gentleman yield?

Mr. MILLS. I shall be glad to yield to the gentleman from Tennessee.

Mr. COOPER. I am sure the gentleman will remember that in the bill reported by the Ways and Means Committee and passed by the House last year a provision was included that would have resulted in about \$20,000,000 additional revenue from the cooperatives, but that it was taken out in the Senate.

Mr. MILLS. Yes, and they would not in the conference under any circumstances agree to it. The House managers at the conference finally had to recede from their position and accept the amendment which had been adopted in the other body. We were in session for several hours on that one amendment.

Mr. BONNER. Mr. Chairman, will the gentleman yield?

Mr. MILLS. I yield to the gentleman from North Carolina.

Mr. BONNER. I want to make myself perfectly clear; I am not speaking of the cooperative that affords a marketing program or an assistance program under any condition, but I am speaking of competitive business with merchants and manufacturers, and this thing is going into heavy industry; it is going into insurance; it is going into all businesses of that kind, and certainly there is no way on earth that the Ways and Means Committee can justify taxing one business and not another.

Mr. MILLS. I have already suggested to the gentleman that I offered an amendment in the committee which I think the gentleman from North Carolina would agree with.

Mr. BONNER. I have outlined the question I would like an answer to.

Mr. MILLS. I think the gentleman will agree that, under my amendment, I was trying to do something about this cooperative enterprise which is entering into competition with the merchant, the hardware dealer and other tradesmen in my area and which the latter feel has a tremendously unfair tax advantage at the present time. I was thinking in terms of the psychological effect. I thought maybe the people in my area would have been more willing to assume greater tax burdens had we allocated part of it to that type of enterprise, but I was very zealous in my own thinking to do nothing that would in any way jeopardize these extremely valuable farm marketing co-ops which I think are highly essential to the agricultural people of the United States.

The CHAIRMAN. The time of the gentleman from Arkansas has expired.

Mr. REED of New York. Mr. Chairman, I yield the gentleman one additional minute to answer this question: Was it a fact that the Treasury, as I said before, claimed that this was not income?

Mr. MILLS. Oh, yes; the Treasury said that that which was received from one of these co-ops in the way of a distribution as a patronage refund was not income to the recipient, and since it was not income it could not be reached by any action of the committee in attempting to tax it to the patron. That was brought out and actually that position was one of the factors that kept anything out of this bill on cooperatives.

Mr. KERSTEN of Wisconsin. Mr. Chairman, will the gentleman yield?

Mr. MILLS. I yield to the gentleman from Wisconsin.

Mr. KERSTEN of Wisconsin. A very interesting observation was made a short time ago in answer to a question asked by the distinguished majority leader when he asked what part of the burden pertained to past wars and present defense necessities. I believe the gentleman's answer was 83 percent.

Mr. MILLS. That is my recollection.

Mr. KERSTEN of Wisconsin. Does the gentleman know how much pertains to defense needs, present and future, as compared to past war expenditures?

Mr. MILLS. I cannot break it down. I understand there are four factors in this 83 percent. First, the amount of money we make available for the Defense Establishment, interest on the public debt, veterans, and international financing, foreign loans, grants, and all that. I understand those are the four things that make up 83 percent of the budget.

Mr. WINSTEAD. Mr. Chairman, will the gentleman yield?

Mr. MILLS. I yield to the gentleman from Mississippi.

Mr. WINSTEAD. The gentleman from North Carolina pointed out certain tax advantages enjoyed by these cooperatives. Some think they should pay taxes like a partnership. Will the gentleman take the time to explain the difference between the tax imposed upon these cooperatives and the tax treatment of partnerships?

Mr. MILLS. It is the argument of some of those in the cooperative movement that cooperatives are to be treated taxwise just as any partnership now is being treated because, they say, in fact they are a partnership, and whatever is made by a cooperative is made for the individual members of the cooperative in a sort of joint relationship. I take a somewhat different position with respect to these cooperatives that open up a place of business on Main Street and sell to anybody who walks in, irrespective of whether he is a member or not. To me the Congress never intended, when it gave birth and impetus to this great farm cooperative movement, to include that type of a cooperative in this sort of special treatment. It is that type of cooperative to which the gentleman refers and the fact it does not pay taxes on its entire earnings before anything is distributed to the patrons is the thing, in my opinion, that causes most of the complaint that exists today among the business people.

Mr. WINSTEAD. Would there be a difference if it sold only to its own members insofar as the argument goes that it should be treated for tax purposes as a partnership?

Mr. MILLS. There would be. I think there would be a difference if its entire business was done with members and only members.

Mr. REED of New York. As a matter of fact, under the regulations they are supposed to segregate those who are not members from those who are members and to tax those who are not members on the amount they buy.

Mr. MILLS. Is that true of a consumer cooperative?

Mr. REED of New York. Yes.

Mr. MILLS. That is true of a consumer cooperative.

Mr. REED of New York. Yes.

Mr. MILLS. I appreciate the gentleman's observation.

Mr. Chairman, I ask unanimous consent to revise and extend my remarks.

The CHAIRMAN. Is there objection to the request of the gentleman from Arkansas?

There was no objection.

Mr. REED of New York. Mr. Chairman, I yield such time as he may desire to the gentleman from California [Mr. PHILLIPS].

(Mr. PHILLIPS asked and was given permission to revise and extend his remarks.)

Mr. PHILLIPS. Mr. Chairman, my opposition to additional taxes at this time, and therefore my decision to vote to recommit the bill now before the House, is based on my conviction that other things should come first.

If new and heavier Federal taxes are to achieve a justifiable purpose; if they are to be a part of a pay-as-you-go mobilization of our strength; if they are to help in the fight against inflation, by siphoning off consumer buying power; then the Government itself must see to it that Government wastefulness does not defeat these legitimate purposes. We are close to a saturation point. Taxes from present sources have approached the point of diminishing returns. New tax sources have proved almost impos-

sible to find. Additional tax levies will not necessarily bring in a large total revenue. This is tax experience.

Administration demands for heavily increased taxation is based on a fallacy. The administration appears to assume that Government spending is not inflationary, while that of individual citizens is inflationary. I find it hard to believe that the President, or anyone else in his administration, can fail to understand that the opposite is the fact.

Government spending is directly inflationary. Government does nothing to create wealth. Government spends. Non-Government spending, on the contrary, is channeled back into the production, for the most part, of goods and services which are essential to economic, and hence to military strength.

It follows, in putting first things first, that a sincere effort on the part of the administration to bring about economy in its own operations, and to enforce orthodox credit curbs, which, with increased production, can strike at the heart of inflation, must precede the imposition of additional taxes.

The administration continues to pursue a policy of inflationary spending, on an increasing scale. This is evident from a few budget figures, which I shall give you now, as examples of what I mean. I have had an opportunity, as a member of the House Committee on Appropriations, to study these figures.

In fiscal year 1939, the Federal Security Agency spent \$758,536,061. In fiscal year 1947—the first budget request of Mr. Truman—it spent \$928,077,000, or a percentage increase of 22.4 percent. For fiscal year 1952, the year for which we are now appropriating, the agency asked for \$2,154,483,011, an increase in only 5 years of Mr. Truman's administration, and postwar years at that, of 132.1 percent.

The Department of Commerce jumped in the same three fiscal years from \$239,456,636 to \$368,556,000 and in the last 5 years to \$761,918,904. This is a jump of 106.7 percent in Mr. Truman's peacetime administration.

Using percentages alone, in the past 5 years, the Interior Department increased its budget 123.7 percent; the housing and home finance agencies, 150.2 percent; the General Services Administration—adjusted to the reorganization—185.3 percent; TVA, 88.8 percent; NLRB, 86.5 percent; while the increase during the 5 years alone, for all Government agencies, was 82.2 percent.

Let me call your attention again to the fact that these increases are all post-World War II increases, and that the rate has been accelerating. So great indeed has been the increase in Government spending for civilian payrolls alone, that today the total is at an annual rate of \$8,300,000,000. This is equal to the rate at the peak of World War II, when Government spending reached an all-time high.

I stop at this point, Mr. Chairman, to admit that I feel in a mood to congratulate the members of the subcommittee on the independent offices, of the Committee on Appropriation—which I admit includes myself—for the evidences of

greater than the average economy in those agencies of government for whose budget this subcommittee is responsible.

Putting the agencies on a comparable basis, the ones for which we are responsible spent \$10,571,039,000 in fiscal year 1947. This was an increase of 511.9 percent over the total for fiscal year 1939, which was \$1,727,588,720. Since we have the Atomic Energy Commission, the Maritime Commission, the Veterans' Administration, the National Advisory Committee on Aeronautics, and others directly associated with the war efforts, this is not too surprising an increase for the war years. However, please note, Mr. Chairman, unlike the other agencies, the percentage for the last 5 years is not an increase but a decrease of 20.3 percent.

Because of the apparent unwillingness of the administration to reduce spending, even in peacetime, and its weakness for socialistic, money-wasting schemes, I cannot in good conscience support the tax bill now before us, nor any increases in taxes upon the small and already hard-pressed taxpayers of the United States.

If Congress and the administration will unite to reduce spending, then will be the time to consider the necessary steps to drain off the consumers' spending power by increased taxes, applying the increased revenues to the immediate demands of war, identified carefully as such, and to payments on the national debt.

Mr. REED of New York. Mr. Chairman, I yield such time as he may desire to the gentleman from Michigan [Mr. SHAFER].

(Mr. SHAFER asked and was given permission to revise and extend his remarks.)

LET'S HAVE SOUND FISCAL POLICIES AND ECONOMY BEFORE TAX INCREASES

Mr. SHAFER. Mr. Chairman, history records that James Watt received the inspiration which he translated into his invention of the steam engine while watching a steaming tea kettle.

I respectfully recommend the tea kettle to the President of the United States as a possible source of timely inspiration, instruction and edification.

While I am well aware of the aversion of women folks to such husbandly intrusions, I suggest that Mr. Truman take a little time off from more imposing official duties, and that he forget politics for a few minutes, and pay a visit to the kitchen of the Blair House.

I suggest that the President there devote a few minutes of concentrated attention to the phenomenon of the steaming tea kettle.

Particularly I urge him to weight the two alternative methods of controlling the steam rolling out of the tea kettle—on the one hand, the method of holding down the tea kettle lid and plugging the tea kettle spout, and, on the other hand, the method of turning down the fire under the tea kettle.

Then I respectfully suggest that the President of the United States return to his study—still forgetting politics for the moment—reflect upon the possible application of a bit of tea kettle wisdom to

the problem of inflation and what to do about it.

The matter of watching the tea kettle should be easy enough for the President to arrange. The matter of forgetting politics even for a few minutes, might take a bit more doing. But even that should not be impossible if Mr. Truman will take seriously his own statement, in his radio address last Friday evening, that the fight against inflation "is not a partisan fight," and that inflation, itself, is not partisan.

The simple truth, which is beginning to dawn upon a growing number of Americans, is that inflation cannot be prevented or controlled merely by holding down the tea-kettle lid or plugging the spout. This discovery, despite Mr. Truman's insinuation to the contrary, is not limited to members of the National Association of Manufacturers.

Despite the inept and obvious smear technique employed in the President's radio address, it is not the so-called lobbyists or the "interests" who have grave doubts as to the wisdom or efficacy of trying to stop the tea kettle from steaming by clamping on the lid and driving a cork in the spout.

Incidentally, when Mr. Truman professed to list the substitutes for price controls advocated by these terrible lobbyists, he very carefully avoided any reference to their proposals for Government economy and for lessening the flood of cheap money. He very carefully failed to mention these two indispensable devices for turning down the fire under the tea kettle.

The President indulged in another familiar line of deception when he charged that the same people who urge higher taxes as a means of controlling inflation are—and I quote his words—"going around urging another committee of Congress to go easy in raising taxes on corporate profits."

The fact is, of course, that the matter of taxes is definitely and deeply involved in the whole problem of inflation. But it also is a fact, and a fact which the President likewise chose to ignore, that the effectiveness of higher taxes as a device for controlling or preventing inflation depends upon whether those higher taxes are used in conjunction with—or as a substitute for—other necessary methods of turning down the fire under the steaming tea kettle of the national economy.

The \$7,200,000,000 tax bill now before this House must be appraised in relation to the total problem of inflation and inflation controls. It must also be appraised in relation to the administration failure to adopt antiinflation measures which strike at causes instead of symptoms alone. It must be appraised in relation to the President's insistence that you can stop the tea kettle from steaming if only you enact enough laws; impose enough controls; invoke enough penalties; post enough price ceilings; hire enough snoopers, price czars, and OPS lawyers—all at the taxpayers' expense; add the frightening governmental power of licensing all businesses and the corollary power to revoke licenses and drive Americans out of busi-

ness, and create and expand the vast and appalling apparatus of regimentation.

This tax bill, Mr. Chairman, must be appraised, not by itself alone, but against this background of a blind and stupid economic and political philosophy which ignores the fact that the only possible result of these methods, like the procedure of bottling up the steam in a tea kettle while leaving the fire on full blast, will be a disastrous explosion which could wreck not only our economic system but our system of political freedom as well.

So far as I am concerned, when this tax bill is so appraised, when it is appraised against this background, it leaves no possible choice but that of opposition.

By way of elaborating the reasons for that opposition, I point out, first of all, that the higher taxes represented by this bill, when taken alone, have inflationary effects.

Higher income taxes, imposed on the wage earner, bring demands for higher wages—and so contribute to the inflationary pressures.

Higher corporate tax rates, inevitably passed on to the consumer, bring demands for higher prices—and so contribute to the inflationary pressures.

Higher corporate taxes and higher taxes on dividends—despite the politically popular appeal of “soaking the rich”—actually result in drying up the streams of investment capital which are the source of new or expanded business operations. This drying up of the streams of investment capital, in turn, curtails production and the very output of goods and services which effectively limit and control inflationary forces.

Excessive taxation, of the type represented by this bill, has a production-curbing effect which is obvious even to the average wage earner. It produces the taxpayers' strike—the unwillingness or reluctance of the worker to work extra hours or days when he realizes that the extra earnings will put him in a higher income tax bracket which takes part or all of his extra earnings away from him in taxes.

Higher taxes, taken by themselves, without measures which turn down the fire of inflation, actually serve to feed that fire.

In the second place, higher taxes, voted ahead of and without regard for every possible economy in Government, merely confirm the tax spenders in their spendthrift ways and thereby make it easy for them to continue their reckless and profligate extravagance.

For these wastrels of the Nation's substance, higher taxes voted prior to real economy in Government are merely a welcome assurance that “there's more where that came from.”

There is a time and a place for higher taxes—if they can be geared to a genuine pay-as-you-go Government program based on real economy and sound fiscal policies.

But that time and place are related to, and dependent upon, economy in Government becoming a fact and not a mere Presidential dare.

There is a third important point bearing on the relationship of taxes to other and prior efforts to combat inflation by turning down the heat under the tea-kettle.

Higher taxes are a blow to thrift—to the habit of current saving by the American taxpayer. Higher taxes mean less individual saving—less purchases of E bonds, less reinvestment in E bonds by citizens whose present savings bonds are maturing.

A decrease in E bond purchases will make it necessary for the Government to sell more bonds to commercial banks which, in turn, means turning loose new floods of cheap money. And these new floods of cheap money will have the effect of further depreciating the dollar and of lowering the value of E bonds as an investment, thus adding a further discouragement to prospective E bond purchasers.

It is a vicious circle, a dangerous chain reaction. And higher taxes can be the very factor which touches off that chain reaction.

There is one other aspect of this inflation and tax increase picture which bears particular emphasis. One group of our fellow citizens, above all, is caught in this disastrous economic pinchers.

I refer, of course, to those persons relying on fixed incomes for their subsistence level of economic existence.

Included in this category are those persons entirely dependent upon pensions, annuities, life-insurance benefits, dividend payments, and various types of savings, including bank accounts and savings bond investments.

Because of its direct bearing on this group of Americans and their present plight I call attention to a fact recently cited by Dr. Walter E. Spahr, professor of economics of New York University. Dr. Spahr said:

The total loss, because of a depreciated dollar, on the average value of life-insurance policies, time deposits in banks, and E, F, and G savings bonds for the years 1941–50, in 1950 dollars as compared with 1941 dollars, amounted to \$116,565,524,000. This huge loss, lightly regarded because so poorly understood, stands in sharp contrast to the officially estimated total loss of \$1,901,000,000 by depositors in suspended banks during the years 1921–1933. Regarding the latter loss, extending over 13 years, and which is only one-sixty-first of that over 10 years on the three items mentioned, we still write and speak with emotion for the reason, apparently, that the meaning of that loss was brought home to us in a manner we could understand. But regarding a loss more than 61 times greater, on only the 3 items specified, we offer in general little more than platitudinous observations that reveal our small understanding of the devastating effects of a depreciating currency.

And, as Dr. Spahr goes on to point out, the factor of irredeemability of the currency, which has its roots in the repudiation of the gold standard, “is the most potent of all forces known as causes of a depreciating currency.”

The supreme irony of the situation which is now proposed to further aggravate by higher taxes, and by continued attention to the symptoms rather than

the causes of inflation, is that this situation is the product of the policies of New Deal and Fair Deal administrations which have long made loud professions of concern for the so-called social security, and for freedom from fear and want.

Social security today has become ashes in the mouths of America's pensioners and others dependent upon fixed incomes.

Mr. Chairman, all of these interrelated problems of taxes, prices, and inflation offer immense opportunities for political exploitation, for demagoguery, for quackery, and sure-cure promises, and for demands for vast new authority for a power-hungry executive department.

The administration isn't missing any chances of exploiting these opportunities.

The legend is that when James Watt sat for a long time watching the steaming tea kettle, his aunt reproved him for his idleness and urged him to engage instead in some useful activity.

It is not the first time—nor the last time—that activity has been mistakenly urged as a preferable substitute for careful and sober thought.

Perhaps this is another lesson which the administration could learn from James Watt and his aunt's tea kettle.

Earnest, searching thought regarding the complex and critical problems of our economy will contribute much more, in the long run, toward solution of those problems than the politically inspired, hurry-up activity which seeks the answers in new Government bureaus and job holders, more directives, and more and more use of administrative powers directed against the long-suffering American citizen.

Mr. REED of New York. Mr. Chairman, I yield 25 minutes to the gentleman from Ohio [Mr. JENKINS].

Mr. JENKINS. Mr. Chairman, I think it can be safely said that up to this time this debate has been very lucid and illuminating and very fair. Taxation is a very complicated and intricate subject, and nobody is safe to assume that he knows all about it. Taxation is almost a science. Taxation must be just and it must be general in its application so that no person or group is favored, and consideration should be given to ability to pay.

Mr. Chairman, in the consideration of this tax bill there is not very much new about it. There are no new tax principles involved except, I might say, two. There are two principles that are somewhat new to personal income taxes and corporate income taxes. One of them is withholding of dividends and interest, and I shall discuss that later. Another new principle, I presume, that would be new, and that is going to be very experimental, is the provision which seeks to tax gambling. Up to this time we have taxed about everything else, but we have never taxed gambling from a national standpoint. In this bill we do not seek to tax the gambling game as it progresses, but we take the position that we tax the promoter as we would tax an occupation. Personally, I hope the ex-

periment is successful, and I think it can be successful if those who administer this law will carry on with vigor and with real earnestness. It was unfortunate that the House and the Senate, through investigations, were compelled to expose this terrible business. The American people approve what these investigating committees have done, but if the district attorneys and the prosecuting attorneys and the law-enforcement agencies of the country had done their part it would not have been necessary for these groups to act.

Several of the Members who have spoken today have said this. They said it with some little pride, I thought. They said that this is the biggest tax bill ever introduced and considered in any Congress. You know, that kind of terrifies me to think that this is the biggest tax bill that ever has been introduced in any Congress, and it is coming on so soon after two other big tax bills that were recently passed, one last year producing more than \$6,000,000,000, I think, and another this year producing more than \$3,000,000,000, making altogether about \$10,000,000,000. Then this one comes along, providing for something over \$7,000,000,000. You know, my friends, I dare say everybody here is old enough to remember when the first income-tax bill was passed. It has only been a few years ago. George Washington did not know anything about an income-tax bill, and neither did Abraham Lincoln and neither did William McKinley.

As you well know, when the Government was set up nobody ever thought about an income tax on corporations or on private individuals. Well I wonder how in the world the Government existed up to that time. Originally taxes were levied on ability to pay or rather taxes were levied on property. In some States only property owners had the right to vote. The complexity of business brought on new tax theories that were more liberal and more just.

Now just think of the millions and millions and billions that are taken in by the Government by way of income taxes. The first income tax law was passed after the Constitution was amended in 1913. We had to amend the Constitution to have a right to levy an income tax. We had to go through that great and profound formality of passing an amendment to the Constitution. Well, after we amended the Constitution, Congress soon came forward with an income-tax law. It was very mild as compared to what the law is today. Do you know what personal exemptions were then? The exemption then for a single man was \$3,000 and for a married man was \$3,500 and the rate of taxation was only about, I think, 6 percent. In those days \$3,500 was considered to be a princely salary or income. That was about as high as they dared to go for several years. They carried that high exemption and that low rate for several years, but now just think of it. In this bill the corporations are up against an 82-percent tax limit and the individuals are up against a 90-percent tax limit.

Who is it that wants to start out in business as a corporate entity when he

only has about an 18-percent margin to operate on if he becomes highly successful? What individual wants to figure on making a big income if he knows he is going to be taxed 90 percent on the dollar on what he earns? There is no question that we have gone about our limit in the field of income taxes.

Mr. Chairman, the fact that this is the biggest tax bill in history carries tremendous implications. It means that we have about reached our limit. In the early days the Government's principal income came from tariffs, rents, and sale of Government lands and from the tax on liquor and tobacco. The cost of Government was held down. When Roosevelt was first elected the total cost of Government was more than a billion dollars a year less than the interest on the public debt is now.

Harry Hopkins made himself immortal when he announced the formula that the Roosevelt administration would follow which was "tax, tax, tax, spend, spend, and elect, elect, elect." While he made himself immortal he made himself eternally ignoble, for this policy has all but ruined our great country.

Mr. Chairman, while our committee was laboring so hard and faithfully on this bill I got what I felt was a profound conviction; that conviction was that this tremendously big bill might be the limit beyond which we could not safely go. When you go up to 90 percent on individuals how much farther have you got to go? When you go up to 82 percent on corporations how much further have you got to go?

In contemplating this situation I got scared. So I talked with a man who, I think, knows more about taxation than anybody in the United States. I said to him, "I am worried about this big tax bill. I am afraid this may be the last one. What are we going to do if we are called upon to pass another such bill along the same lines?"

This man has been for years closely identified with all the tax bills that Congress has passed. Do you know what he told me? He practically agreed with me. He said, in effect, that he thought that we have gone about as far as we can along the present lines, and he further said, in effect, that we will inevitably be driven to levy a straight national sales tax on everybody and everything.

Mr. Chairman, let me say in all seriousness that if we have come to a national sales tax on everybody and everything, we have come to that place that would bring rejoicing to the Socialists and Communists of the world. When the Government controls everything that our people spend individually, then the Government controls everything and everybody. Up to this time we have been trying to permit our people to control what they have earned and what they spend. When the Government controls by taxes what a person spends, it will tell him what he can buy and what he cannot buy.

Mr. Chairman, there is a school of tax philosophers who believe that the Government should control all spending. Some of these, I am advised, are pretty

close to the White House. My colleagues, you may be in favor of this kind of a program, but listen to me. Whenever we levy a tax on spending, and expect to finance the National Government on a national sales tax, then who is going to pay the most, who is going to carry the burden? Inevitably, the man who spends the greatest part of his income, that is, the poor man, the workingman with a family. He is the man that spends the greatest part of his income, and he will be the man that will have to carry the load.

Mr. Chairman, that kind of a tax is not consonant with democracy or with republicanism that has made us the greatest country in the world. We would find ourselves in a position where the Government would tell us what to do instead of our telling the Government what to do.

We have been proud in our preachments when we say that the people rule, the people control, the people control the Government, but whenever the Government comes along with the heavy hand of taxation and makes all its expenses out of what people spend, then I tell you we have turned it around. If and when we come to having a general sales tax as the complete method of getting all our governmental expense money then we will be taxing the man of small means with a large family much more proportionately than anyone else because he spends a larger percentage of his earnings than anyone else. He spends all his earnings and therefor is taxed on all he earns.

Mr. CUNNINGHAM. Mr. Chairman, will the gentleman yield?

Mr. JENKINS. I yield to the gentleman from Iowa.

Mr. CUNNINGHAM. Is it not true that the excise taxes provided for in this bill as well as previous excise taxes are in fact sales taxes? Is there any difference between an excise tax and a sales tax? Is it not added to the price of the product?

Mr. JENKINS. Practically, that is right.

Mr. CUNNINGHAM. And is it fair to have such a tremendous sales tax on certain products and none on others?

Mr. JENKINS. That is a great problem in taxation. I know the gentleman has thought it out, and I have thought it out, too. But whenever you put an excise tax on commodities it is a hard thing to say what to tax and what not to tax, where to start and where to end. You just could not do it completely equitably, because what might be an exorbitant sales tax to one individual, or an exorbitant excise tax, would not be so to somebody else.

Mr. CUNNINGHAM. I am confused about the tax on cooperatives, after listening to the splendid speech by the gentleman from Arkansas. If I understood him correctly, store cooperatives are taxed, but under a ruling of the Revenue Department their profits are held not to be income, therefore they are not covered by the bill. Is that correct?

Mr. JENKINS. That is the way it is. The gentleman from Arkansas is one of the best versed tax men in this House. I think what he said is correct.

Mr. CUNNINGHAM. These marketing or consumer cooperatives are not taxed if they distribute their profits to the members, such as the farmer, on the theory that when the farmer or the member gets the profit it is added to his income, and therefore he pays the tax on that. But if the cooperative does not distribute it to the members, then that part of the profit is now withheld by the cooperative, even though it is a consumer cooperative or a marketing cooperative, is subject to taxation. Is that correct?

Mr. JENKINS. That is the bone of contention—what to do with the surplus.

Mr. CUNNINGHAM. Is that correct? Is it correct that they are not taxed now if they are handed out to the members, but if they are retained as a part of the assets of the cooperative they are taxed? Is that correct?

Mr. JENKINS. Well, no, if they are handed out to the member, they are taxed, in the hands of the member.

Mr. CUNNINGHAM. But if they are not handed out to the member, and if it goes to the marketing or consumer cooperative, then they are not taxed at all. Why then, does not the same rule—or does the same rule apply in that case as a ruling by the Internal Revenue Department as to store cooperatives—that is, are they not taxed when they are not passed out, because the Internal Revenue Department has a ruling that this profit is not income? Is that the reason?

Mr. JENKINS. That is a very complicated question. The Treasury has dealt with it, and the cooperatives have dealt with it, and private individuals have, also.

Mr. CUNNINGHAM. Can the gentleman not answer whether or not the Treasury Department has a ruling that it is not income?

Mr. JENKINS. I may not understand the question. As I understand the gentleman's example, which he just gave, it is not income.

Mr. CUNNINGHAM. Then when you get to the bottom of the whole controversy, the trouble lies, not with the Congress or with the Committee on Ways and Means of the House of Representatives, but with the interpretations placed upon our law by the Treasury Department.

Mr. JENKINS. In order to be absolutely fair with the Treasury Department, the Treasury Department does not want to institute a program, if it cannot effectuate it, and if they cannot make it work. One branch of the Treasury has to enforce it, of course, and it would not behoove another branch to advocate the passage of legislation which would not work.

Mr. CUNNINGHAM. Is there any basis that the Treasury Department has given for classifying this profit of these cooperatives as not being income?

Mr. JENKINS. I can just give a little illustration. For instance, if you go to one store and buy a shirt which costs you \$2, and I go to another store and get the same kind of a shirt, exactly, for \$1.50, why, that is not income to me.

Mr. CUNNINGHAM. Why is not that extra differential of 50 cents called in-

come, or, in other words, profit to the store that gets it?

Mr. JENKINS. It is not income to me.

Mr. CUNNINGHAM. No; but it would be income to the store.

Mr. JENKINS. That was not the gentleman's question. As I understand it, here is the real bone of contention. Many people claim that the cooperatives do not pay tax on everything that they themselves earn and keep to themselves. They cite an illustration. For instance, where a cooperative built a great big office building, which cost probably \$100,000.

Mr. CUNNINGHAM. That is what you call a store cooperative?

Mr. JENKINS. Yes. They claim that that was bought by surplus of the cooperative, whereas, had they been a corporation, they would have been compelled to pay on that surplus. There is a line of demarcation there, and the Treasury Department makes out that line of demarcation. These gentlemen have discussed that. The gentleman from New York [Mr. REED] is an outstanding expert on that subject, and so is the gentleman from Arkansas. If I have not answered the gentleman fully I am sure that he can find the answer in the speeches made by Mr. REED and Mr. MILLS.

Mr. CURTIS of Nebraska. Mr. Chairman, will the gentleman yield?

Mr. JENKINS. I yield.

Mr. CURTIS of Nebraska. The facts are that the Congress at no time has given any special treatment by way of legislative enactment for any cooperative except those marketing agricultural products, and those distributing agricultural supplies and equipment.

Mr. CUNNINGHAM. I want to thank the gentleman. My state of confusion is not as great as it was before he was kind enough to yield to me.

Mr. JENKINS. I am glad that we have been able to help the gentleman. If the gentleman has come to the place where he is complacent and thoroughly satisfied with reference to this cooperative question, I want to congratulate him, because he is a very able Member of Congress and the matter of taxing cooperatives is a difficult one to understand fully. I am always glad to do the best I can to explain it as I understand it.

Mr. CUNNINGHAM. I will not accept that tribute, but I am very much concerned. Like others, I am unable to answer questions that I receive from constituents in the mail. They are confused. I know I am confused. The gentleman has helped me quite a bit. There are still some points that are not quite clear in my mind, but perhaps I can find the answer to them later.

Mr. COMBS. Mr. Chairman, will the gentleman yield for an observation?

Mr. JENKINS. I yield to the gentleman from Texas, Judge Combs, who comes from an agricultural section of the country and understands the workings of cooperatives fully.

Mr. COMBS. On this cooperative proposition, there is a great deal of misunderstanding. Let us take a marketing cooperative that has been referred

to. Suppose a thousand farmers or other individuals get together and put in \$100 each. That raises \$100,000 capital. Suppose they build a store. Now suppose they make their sales to their members, and at the end of the year they total up the expenses and they distribute every dime of profit left, after they pay salaries and expenses, to those 1,000 members. They do not pay a dime of tax. Neither would a corporation pay any that was operated on that basis. But under existing law, if they retain anything to add to their capital, to expand their business, it is taxable, exactly as a corporation is taxable today.

Mr. JENKINS. I wish to thank Judge COMBS for his learned explanation. Now let me get back to my original thesis with reference to whether or not this may be the last tax bill. I want you to consider this with some little solemnity. Perhaps some people would be happy if it would be the last tax bill, but I would not be happy if this would be the last tax bill. I do not like to see us pass a bill that will practically tax our people beyond financial endurance. We must defeat this bill or send it back to the committee on a motion to recommit so that we can bring back a more moderate bill and save our tax structure.

I have stated publicly that I am going to vote against this bill. I have a number of good reasons. I have abundant reasons. In the first place we do not need the large amount that this bill will take away from the people. Another reason is that I am opposed to this principle of withholding on dividends and interest. There is another reason: You know everybody talks about economy. It has come up a half dozen times today and everybody says, "What are we going to do about doing away with spending for nonessentials."

Let me call this important incident to your attention: It shows why we do not cut out this extravagant spending. Our committee, I mean the Ways and Means Committee, went down to see the President 2 or 3 months ago. He invited us to come down there. That was the first time I had been in the White House for a long, long time. We went down and met the President as he had called us down to talk with him about this big tax bill. He treated us very nicely. I think everybody put on a clean shirt and went down there and we looked the best we could. He looked the best he could, I think. He came out and spoke to us and made a real good speech. As he was making his speech I thought a little more of him than I had previously. Of course I knew somebody else had written the speech, but he delivered it very well. After he got through, he assumed that usual cocky atmosphere that he has, and he said, in effect, "Now, if anybody wants to ask me any questions, I will be glad to try to answer them." Sure enough, some members asked him some questions. I do not think any Republicans asked him any questions for a while. Most of the Democrats asked him questions that would naturally encourage him. After 10 or 15 minutes of this there came a little lull in the proceedings and I timidly volunteered to ask him a little simple

question. I said, "Mr. President, I do not want to change the subject, but I would like to know what do you recommend with reference to national economy?" He went up the figurative stepladder pretty fast on that question. He took it right up quick. And this is what the President said—I do not claim to quote him exactly, but the President was really cocky and defiant. He wanted us to understand that he had gone over the budget in great detail and that nobody could justify cutting anything out of it. He dared anybody to cut anything out of it. But my colleagues you know that the Appropriations Committee of the House cut millions out of his budget and that the membership of the House has cut additional millions out of his budget by motions on the floor of the House. He

He said, "I want you to raise \$16,100,000,000 and I want you to raise \$10,000,000,000 by the first bite and \$6,000,000,000 on the next bite." He looked at the Democratic members as though he thought they would do just what he asked them to do, but I noticed that some of the Democratic Members did not approve of his demands. They went back up to Congress and took their own good time to work out the matter.

The Democratic members of the House Ways and Means Committee are taken as a whole competent tax authorities and by their action showed that the President's demands did not have much effect on them.

When the President finished his little speech about how much taxes he wanted the committee to raise forthwith he then took up the matter of curtailing Government expenses as I had inquired. In effect he claimed that he had practiced rigid economy and talked as if he was America's chief economizer.

Now, Mr. Chairman, here is the point I want to make: It is not the problem of the Congress of the United States to determine how the money shall be spent; in our set-up of Government, Congress makes the laws, the Supreme Court interprets the laws, but it is up to the Executive to enforce the laws and spend the money required in carrying out the laws. It is up to him to make the recommendations. It is up to him to see, as the Chief Executive, the purpose of the laws is carried out and the money spent wisely.

He said that we could not cut the budget and he dared us to try to cut the budget. What has happened? I have already told you. Down there in the White House in the executive branch of the Government there is no responsibility apparently for reducing expenditures. There has been no evidence of it. Nobody in the executive branch wants to economize. They all seem to feel that spend and elect is the proper procedure.

Mr. Chairman, unless the President wishes to economize the Congress must do it if it is to be done.

Then you ask me: How can you vote against this bill without any finances coming in? I want you to know, as has been brought out here several times, strange as it may seem, we have \$4,000,000,000 in the Treasury unspent; and I am surprised that the President has not

got at that yet, but there it is, and we are going to have a lot more money coming in. From all the figures I have, and I do not want to tire you with them now, but figures by the best estimators, they show that we are going to have enough money under the present tax law to carry us through 1952 unless the President comes forward with some program far beyond any reason. So there is the situation; we are not busted, and do not forget we are already reeling under a terrific load of taxes, a terrific load. We do not repeal any of them in this bill, and if we fail to pass this bill we will continue to collect what we are collecting now. If you should send this bill back to the committee, or if you should vote against this bill there would be no reduction of any kind. So I say to you I am going to vote against it with great complacency because I think that the money that we already have down there and the money that is going to come in under the big tax bill we passed last year and the one we passed early this year will provide enough money until the Executive shows some inclination to do what the American people want him to do. He knows that that failure to economize is on the lips of everybody everywhere: Why do you not cut expenditures is the question asked by thousands every day. Until he cuts expenditures I am not in favor of giving him any more money to spend; and that is one of my reasons for not voting for this bill.

Mr. YORTY. Mr. Chairman, will the gentleman yield?

Mr. JENKINS. Not at this time; I want to discuss one other subject and that is a new provision, the matter of withholding.

Last year over the protests of myself and many other Republicans the House passed a bill providing for a withholding of income taxes on corporations and individuals? What happened to it? When the bill went to the Senate the Senate took the withholding provision out—the Senate took it out completely. What about this bill? When this bill first came to the Ways and Means Committee, first for consideration, it had a provision that withholding would apply against all the interest paid out by the many building and loan companies of the land, and against all of the interest paid out by the savings banks, which are located all over the country. One bank in Cleveland wrote me that it had 450,000 of these little savings accounts. Hundreds of savings banks and building and loan companies throughout the country were in a similar position. The Democratic members of the Ways and Means Committee heard protests from all over the country against this 20 percent withholding and brought in an amendment relieving the savings banks and the building and loan companies of this terrible burden of withholding on these millions of accounts. Maybe the Democrats did not have any secret meetings but we Republicans were astonished when one of the Democrats rose in committee and moved that we take out the withholding as far as it applied to these savings banks and building and loan companies and other similar agencies.

Now, then, if they were willing to take out withholding as far as it applied to all those different small accounts why not take it out of everybody? I maintain that it should be done. How does it work? Let us take the case of an old lady, we will say she is an ex-school teacher; she lives on her little retirement and she has a few shares of stock in her home bank maybe. Her dividend may be \$50 twice a year. She has gone to San Francisco or to Florida or to some other place to live and she depends on her meager retirement and her little dividends. A notice comes to her that they have taken out 20 percent of those dividends and they are withholding it. She looks it over and wonders, well, what do I have to do to get that 20 percent back? The company paid it to the Government. You know, that is the bad thing about this bill and we have gone into this extensively in our minority report. A lot of that money that goes back to the Government will never get into the hands of the poor people to whom it belongs. They will not go to the expense to engage a lawyer or a notary public to make out the application for a refund. The Treasury estimates that many thousands of dollars will stay in the Treasury. This is a most unjust enrichment by the Government at the expense of small helpless owners of small amounts of stock.

The CHAIRMAN. The time of the gentleman from Ohio has expired.

Mr. REED of New York. Mr. Chairman, I yield the gentleman five additional minutes.

Mr. JENKINS. Mr. Chairman, it is argued that this is the same as withholding on wages. It is not the same. The man who works, the man who labors, the man who works in a factory can see the bookkeeper of that factory or the auditor of that factory every day. If he loses 2 or 3 days he knows how much he has lost, he knows when his pay check comes to him whether or not he has the right amount. If he has not received the right amount he goes in to see the auditor to determine what is the matter. But this school teacher far off someplace does not know anything about what is going on until they have taken the money out and sent it to Washington.

If the man who labors or works has a new baby in his family, he knows he has an additional exemption by reason of that and he hurries to the bookkeeper and says: "I have a new baby in the family. I have an additional \$600 exemption, so you cannot take so much out on me because my total tax will be reduced." All of that works out nice for the workingman because they in a way keep his books. But I tell you, this withholding of 20 percent of dividends is an abomination to many deserving people. It is not for the rich people because it is provided now that if any company pays a man more than \$100 in dividends that company must report the fact to the Treasury. The Treasury gets reports on all people who make any appreciable amount of dividends. But I say again this withholding of dividends is not right. That is my principal opposition to this bill. They say this with-

holding will bring \$400,000,000 into the Treasury. How do they know how much it is going to amount to if they do not know who has not been paying? It is not right that they should withhold on a person whose total income is not sufficient to cause him to be an income-tax payee. I venture the assertion that if you pass this bill with this withholding portion in it the Senate will take it out as it did before.

Mr. SCHWABE. Mr. Chairman, will the gentleman yield?

Mr. JENKINS. I yield to the gentleman from Oklahoma.

Mr. SCHWABE. This is calculated to put in a lot more jobs, is it not?

Mr. JENKINS. I am glad for the observation of the distinguished gentleman from Tennessee. There is no doubt all this mess that will result from withholding will call for the employment of many more Government employees.

Mr. Chairman, I have not the time to discuss excise taxes as I should like to do. They claim that they are going to get \$1,000,000,000 more out of those additional excise taxes. The gentlewoman who asked a question a while ago spoke the voice of the American women and the housekeepers of the Nation. In this bill we put an extra tax on liquor, which may be all right, and on cigarettes, which may be all right, and on gambling, which is all right, too. But in addition to this we go out and take the little lead pencil that a child uses in school and put a tax on it. We are going to put taxes on a lot of these things and take money away from our people which have not been taxed before. And at the same time we run the income tax on personal incomes up to 94½ percent on an individual who has a big income, and we run the tax up on the corporations until they can hardly exist any longer. But they say, "Well, we need the money."

We ask, What for? They say, "For Korea." It is not right to hide behind that. There is not a man or woman in this House who would not vote the last dollar of this Nation's money for the boys in Korea if that was necessary. But there is a lot of money down there in the Treasury. And when we come to economy we should watch where the money is being spent so far as the military of the country is concerned. There is a lot of waste there. You talk to any man on either side who is a military man and you will find that he is of the same opinion. A half dozen of them have told me recently that much of the money spent by the military is wasted. But nobody says a word about that, we do nothing about it. That is where Mr. Truman and General Marshall could do some real economizing.

Mr. Chairman, I hope we will defeat this bill, send it back to the committee and let that committee come back with a bill that is consonant with the voice of the Nation and of the people.

Mr. Chairman, recently I made a series of speeches on the floor of this House. The subject of these speeches were:

First. The Government Is Spending too Much Money.

Second. The Government Is Giving Away Entirely too Much Money.

Third. The Government Is Lending Entirely too Much Money.

Mr. Chairman, I could add to this list by saying the Government is taxing the people out of entirely too much money.

(Mr. JENKINS asked and was given permission to revise and extend his remarks.)

Mr. DOUGHTON. Mr. Chairman, I yield 20 minutes to the gentleman from California [Mr. KING].

(Mr. KING asked and was given permission to revise and extend his remarks.)

Mr. KING. Mr. Chairman, for 4½ months your Committee on Ways and Means has had under consideration the bill that is now before the House. For 4½ months perhaps the most complicated and involved legislative proposal that has been before the Congress in many years was considered, debated, and passed out. The taxing establishment of our Government is probably the greatest, the largest, and most involved system in the entire world. To say that it is debatable, is to put it mildly. Men and women in the country really do not realize to what extent taxation in our country is debatable. So long as it remains debatable on a good, sound, argumentative basis, how debatable it is is not important, but when claims and innuendo enter into a proposition as important as the financing of this effort is concerned, then it becomes serious. We have just heard considerable said about withholding, withholding on salaries of those who work, and as this bill anticipates, withholding on those who earn their livelihood by methods other than work.

Mr. Chairman, most of us have already forgotten that it was the development of a system of withholding on wages and salaries which made it possible for us during World War II to make the income tax generally applicable. Without a system of collection at source we could not have expected the great bulk of the population consisting of those in the middle- and lower-income groups to budget their finances to the degree necessary to pay the large income taxes imposed during and since World War II. Moreover, the withholding system, by collecting the actual amount of tax due on wages and salaries, had the effect of immeasurably increasing the equity of the individual income tax by assuring that all individuals with wages or salaries would report this income for tax purposes with a high degree of accuracy. Without these two advantages of a collection at source system I believe that most fiscal authorities will agree that it would have been impossible for us to raise anything like the revenue we did during World War II.

Now, in this bill we are taking another great step forward by instituting a withholding system on most dividends and certain interest and royalty payments. This is another substantial advance toward securing equality of treatment for all taxpayers. The need for withholding in these areas is indicated by the estimates that at the present time there is in excess of a billion dollars of dividend

payments which should be reported for tax purposes but is not, that there is nearly \$2,000,000,000 in the case of interest and \$40,000,000 in the case of royalties that should be reported, but is not. As stated in the report on this tax bill, it is anticipated that the introduction of collection at source on dividends and certain interest and royalty payments will increase tax collections with respect to this \$3,000,000,000 of unreported income by \$323,000,000 a year. This does not represent the imposition of new tax burdens on anyone. To the contrary, it merely means that for the first time it will be possible to collect the actual tax already due in the case of many dividend, interest, and royalty recipients.

It is difficult to see how anyone in this day of high taxes can object to the introduction of a system which will assure the most equitable distribution of the tax burden, yet there have been objections, and, in fact, a provision approved by the House last year in the Revenue Act of 1950 was bitterly opposed by some of my Republican friends on the committee and was finally deleted from the bill by the other body. The chief objection raised was that the institution of a withholding system on dividends would mean too much paper work for both the corporation paying the dividends and the stockholder receiving them. Although it has not been shown that any more paper work would have been involved for dividend recipients than is already true in the case of wage and salary earners, your committee has taken this complaint seriously. As a result the withholding system provided by H. R. 4473 for dividends and certain interest payments is a streamlined and simplified system. Although in the case of wages and salaries the employer is required to give the employee a receipt showing the amount of withholding, and the employee is required to attach this receipt to his income-tax return, no such paper work is involved in the case of the dividends and interest payments withheld upon.

It has been found possible to introduce a simplified and streamlined withholding system in the case of dividends and interest payments by using a flat 20-percent withholding rate. Under this system a corporation paying dividends simply sends the stockholder 80 percent of the dividends declared, and the remaining 20 percent is sent to the Bureau of Internal Revenue, together with a return showing the total amount of dividends withheld upon. The corporation will not find it necessary to compute the 20 percent with respect to each dividend payment, but need only multiply the total dividends declared by 20 percent. Thus the return to the Government in the case of dividends will be much simpler than that now used on wages and salaries, since the amount held from each individual stockholder will not need to be shown. Moreover, the corporation will not need to furnish withholding receipts to the stockholder as the employer now does to the employee in the case of withholding on wages and salaries. Thus, the withholding system provided by this bill is indeed

a simple system from the standpoint of the corporation paying the dividends. It is in fact far simpler than the system already used by employers in withholding on wage and salary payments to employees.

From the viewpoint of the stockholder the withholding system provided by this bill also is much simpler than the system now used by wage and salary workers. No receipt forms need to be obtained from the corporation and attached to the tax return form when it is filed. Rather, under this simplified system, the stockholder will simply record on his return form the 80 percent of the dividends he has actually received. The next line on the return form will tell him to take one quarter of this 80 percent which, of course, is 20 percent of the dividend payment. The 80 percent and 20 percent of the dividends are then added together and the taxpayer thus has a complete reporting for tax purposes of his entire dividend payment. Moreover, the 20 percent figure also represents the amount which he can take as a credit against his tax after it is computed in the same manner as is now provided in the case of withholding on wages and salaries.

Having overcome the necessity for paper work in the case of a system of withholding on dividends, which was the chief complaint made against the withholding provision last year, you would think that everyone would be sufficiently interested in securing greater equity in the tax system to at least then support a system of withholding on dividends. However, this has not been the case. Now, new reasons are found for opposing collection at source in the case of dividend payments. It is said that if it is unfair in the case of those few stockholders who do not owe any tax to withhold 20 percent during the year even though this money is refunded to them after the end of the year. Usually when this statement is made the length of time required to obtain a refund is considerably exaggerated. The minority report on this point, for example, indicates that "around the middle of the following year they will, if a proper claim for refund is made, be reimbursed." However, the actual facts of the case are that it will be possible for the individual eligible for a refund to file such a claim around the first of January. If he does so, I am told that he can expect his refund back within 15 or 20 days instead of the 6 months implied by the minority report.

However, even here the committee's bill has found a way of relieving part of these taxpayers from the burden of having funds temporarily withheld from them. In the case of tax-exempt organizations receiving dividends, the bill specifically authorizes them to offset withholding on their dividends by not sending in to the Government an equivalent amount that they themselves have withheld on their employees with respect to the employee's income or social security taxes. Moreover, if even this should not be sufficient, these organizations are permitted to file claims for refunds at the end of each quarter of their calendar

year instead of waiting until the entire year has elapsed.

I, too, wish we could find some way of making it unnecessary for the Government to hold even temporarily this 20 percent with respect to individuals who will owe no tax. However, it has not as yet, at least, been possible to develop any such system. I hope, however, that a system of this type can be worked out in the future.

In any case I do not see how the plight of the stockholder who owes no tax, yet is withheld upon, is any worse than that of the low-income wage earner who is withheld upon but owes no tax. It is estimated, for example, by the Treasury Department that the system of withholding on dividends and certain payments of interest provided by this bill will result in the temporary withholding of taxes not due in the case of slightly over two million additional interest and dividend recipients. In the case of wages and salaries, we already have 10,000,000 individuals who are withheld upon but owe no tax. Yet I have heard no clamor against the withholding system as a whole because of this, and, therefore, it is difficult for me to see why there should be the clamor against withholding on dividends when a much smaller number of additional taxpayers owing no taxes will have amounts temporarily withheld. I personally am concerned about this temporary overwithholding but I do not see why it is any more serious in the case of the stockholder than it is in the case of the wage earner. In any case, however, I hope that eventually it will be possible to work out some system of refunds during the year so that this will not be necessary. But if such a system can be worked out, I see no reason to apply it to stockholders and not to wage earners.

In this bill a withholding system is provided for almost all dividends. In the case of interest payments, however, the withholding system is primarily limited to interest payments made by corporations with respect to their bonds. The withholding system does not extend to interest payments on Government savings bonds, bank accounts or similar accounts. The committee believed that withholding would represent too big a chore to the banks in these cases. To me this appears unfortunate. With the simplified and streamlined system outlined by this bill I do not believe that withholding would have been difficult in the case of these other types of interest payments. Moreover, largely through forgetfulness and carelessness I believe that there is a substantial amount of underreporting in this area. In view of this I believe that after the simplicity of the system provided by this bill in the case of dividends is generally better understood, that the objections to withholding on these other forms of interest payments can also be overcome. I suspect, in fact, that the banks might find this easier than making reports to the Government on interest payments on individual accounts. The Secretary of the Treasury would, in fact, require a

detailed report from each bank on interest payments to each depositor, no matter how small the payment.

Mr. Chairman, the withholding provisions of the bill constitute a major improvement in the interest of equity and enforcement of the tax laws.

Mr. REED of New York. Mr. Chairman, I yield 20 minutes to the distinguished gentleman from Nebraska [Mr. CURTIS].

Mr. CURTIS of Nebraska. Mr. Chairman, in the early days of our Republic it was declared that the power to tax is the power to destroy. That declaration had a far broader meaning than was then realized. The power to tax carries the power to destroy anything anywhere. This great American economic system can be destroyed by taxation. The question is at what time does this process of destruction become so great that the likelihood of turning back becomes hazardous?

That time is now. This bill will be a disastrous blow to our economy under any circumstances. It is a bar to production, jobs and growth in America. Taxes are now too high. The Government's take in every transaction at the present time makes the Government the biggest partner in the citizen's business. This bill adds to and accelerates this destructive trend.

President Truman wants to spend \$71,000,000,000 in the fiscal year that will begin the first of July. This is approximately six times more than the Roosevelt administration spent in any year prior to our involvement in World War II. It is 12 times the annual cost of the Government in the highest year prior to the Roosevelt administration. The Truman program of global spending is a millstone around the neck of every productive citizen. Unless it is reversed it will confiscate the property of the "haves" and freeze forever the status of the "have nots."

This Government has no right to impose further taxes on the people and refuse to cut the cost of government. There are too many Federal programs. We must go further than merely eliminating the inefficient and unnecessary activities of the Federal Government. We must cut out some good things that we can either get along without or that can be handled by the local governments or by the citizens themselves. We are in a jam today, faced with a question of our survival because of the false philosophy that the Federal Government could take care of everything. Apostles of destruction have taught that the Federal Government should assume all of the responsibility and supply all the wants and needs for the individual. Such a thing is an impossibility. The Government cannot give security but it can make its citizens paupers and slaves of the state in such an effort.

Those misguided individuals who have proceeded on the theory that the United States can spend without limitation have brought the country to greater danger than any foreign enemy. They have invited a sell out by both individuals and by the sovereign States of their

basic rights and freedoms in return for a portion of the Federal treasure.

To most people a pay-as-you-go system is a two-sided proposition. The first and most essential is a reduction of expenditures and secondly, the raising of the necessary revenue to pay those expenditures. The Truman administration recklessly and thoughtlessly demands more and more of the taxpayers to keep up with their political spending. You just cannot keep up with them. The Committee on Ways and Means worked for 6 months trying to write this bill. They hunted in vain for places to find revenue. It involves about \$7,000,000,000. This \$7,000,000,000 will be hard for the American taxpayers to dig up. Yet, without batting an eye, Mr. Truman in recent weeks has asked for \$8,500,000,000 more in foreign-aid programs.

These expenditures have not brought peace to the country. There is no peace in sight. They have by their dangerous spending put the United States on both sides of every conflict that has occurred in the world in the last 12 years. We started out to help little Finland; later on American material and equipment was furnished the Russians to fight Finland. This policy continues today. The Truman administration has ignored the mandate of Congress to stop sending aid to nations that are supplying Red China with military equipment that is being used to kill the finest and best young men on the face of the earth. The Truman spenders are still working both sides of the street.

The American Revolution was a revolt against taxes. Those men were not resisting locally imposed taxes for police, schools, and other essential elements of Government. They resisted taxes that were imposed upon them to support Europe. This Congress is going to find out that the spirit of the Revolution is not dead and that the American taxpayers today can and will resist.

I am thankful that the American people are great protestors. They still have the courage to criticize. They are in no sense docile. They are willing to fight back. This spirit of independence can and will be aroused again to resist the taxes that are at this time destroying the greatest economic system ever devised by man.

What we need is more resistance. The taxpayers need to rise up and drive out the spenders and preserve our economic system that has given more good things to more people over a longer period of time than any other economic system in history.

Do not let it be said that this tax bill is a curb on inflation. It will promote inflation. Take for instance the manufacturers' excise tax of 20 percent on mechanical pencils and pens. If the manufacturers' cost of a pencil is now 25 cents it will raise it to 30 cents. The distributor and the retailer will figure their percentage mark-up on this new increased price. Is that going to be inflationary or deflationary?

Under our present system of withholding the taxes on wages the emphasis has been placed on the take-home pay. By

increasing the individuals' direct income taxes by one-eighth will this naturally cause a demand for more take-home pay?

When we tax corporations we know that they will be taking more money away from their customers through higher prices. When the corporate rate was 38 percent, management had to make \$1.68 profit in order to have \$1 profit left for the shareholders. This bill raises the rate to 52 percent. This means that the corporation's management in order to have a \$1 profit for the company will have to make a profit of about \$2.11. The only way to do this is to raise prices. Will this be inflationary? The above 52-percent rate is exclusive of the excess-profits tax which is also increased in this bill.

The over-all ceiling on the corporate tax is fixed at 70 percent of the total income. The situation will exist in many cases, however, where the income above a certain point will be taxed at an effective rate of 82 percent. In other words, out of every dollar of new profit made, the Government will get 82 cents and the owners of the corporation 18 cents. What inducement will there be for the corporation to hold-down their production costs when the Government will in effect be paid 82 percent of it? A corporation might as well go ahead and spend lavishly because after all they will only be spending 18-cent dollars. Some corporations may hoard manpower because their tax situation is such that the cost of such a wasteful procedure will be borne largely by the Government. This is most inflationary. It is not just a theory. It is something that will increase the cost of living for millions of American families.

If this bill is enacted it will mean that taxes have been increased by \$17,000,000,000 in the last 12 months. The Tax Act of 1950 wiped out the percentage reduction on individual income taxes made by the Republican Eightieth Congress. This bill proposes to further increase the individual income tax rate by 12½ percent. This is going to be especially burdensome on people of low income.

Take the case of a married person with two dependents whose income is \$3,000 per year. A year ago their Federal income tax amounted to \$432. With the enactment of this measure it will be \$585 or an increase within 1 year of over 35 percent. The taxes for a married person with two children on an income of \$5,000 at the rates that prevailed a year ago amounted to \$974. If this bill is enacted it will be \$1,296. This is likewise an increase of over 35 percent in 1 year.

When the New Deal came to power the personal income tax exemption was \$1,000 as to the normal tax and \$6,000 for the surtax. Today it is \$600 for both. The only time that it has been raised since 1933 was when the Republican Eightieth Congress increased the personal exemption from \$500 to \$600. Due to the Government-made inflation the \$600 personal exemption now has a purchasing power of far less than that amount.

Most taxes are passed on to the consumer. There are many individuals, however, who cannot pass their taxes on to somebody else. I refer to individuals on a fixed salary—retired people living on assistance, a small pension or their own savings, and farmers. Recently a minister wrote and asked how he could send two children to college on a salary of \$2,700 a year in light of the present inflation and high taxes? This man's problem is going to become more difficult with the passage of this bill. It places a very heavy burden on the rank and file of our people who live on small incomes. Mr. Chairman, I wish to insert a table showing the effect of this bill in reference to the individual income tax rates:

SINGLE PERSON, NO DEPENDENTS

Income after deductions but before exemptions	A year ago	Under H. R. 4473	Tax increase
\$600.....			
\$800.....	\$33	\$45	\$12
\$1,000.....	66	90	24
\$1,500.....	149	203	54
\$2,000.....	232	315	83
\$3,000.....	409	549	140
\$5,000.....	811	1,062	251
\$8,000.....	1,546	2,003	457
\$10,000.....	2,124	2,741	617
\$15,000.....	3,894	5,004	1,110
\$20,000.....	6,089	7,810	1,721
\$25,000.....	8,690	11,021	2,421
\$50,000.....	23,201	29,687	6,486
\$100,000.....	58,762	74,831	16,069

MARRIED COUPLE,¹ NO DEPENDENTS

\$1,000.....			
\$1,500.....	\$50	\$68	\$18
\$2,000.....	133	180	47
\$3,000.....	269	405	106
\$5,000.....	631	855	224
\$8,000.....	1,206	1,593	387
\$10,000.....	1,621	2,124	503
\$15,000.....	2,829	3,668	839
\$20,000.....	4,247	5,481	1,234
\$25,000.....	5,877	7,565	1,688
\$50,000.....	17,201	22,041	4,840
\$100,000.....	46,403	59,373	12,970

MARRIED COUPLE,¹ 2 DEPENDENTS

\$2,000.....			
\$3,000.....	\$100	\$135	\$35
\$5,000.....	432	585	153
\$8,000.....	974	1,296	322
\$10,000.....	1,361	1,791	430
\$15,000.....	2,512	3,263	751
\$20,000.....	3,888	5,022	1,134
\$25,000.....	5,476	7,052	1,576
\$50,000.....	16,578	21,245	4,667
\$100,000.....	45,643	58,401	12,758

¹ Income earned by one spouse.

Spenders in Government have always tried to convey the idea that someone other than the rank and file of the people paid the bill. This is quite untrue. It is very apparent that the men and women who work and produce are the ones who must pay the bill.

Even before enactment of H. R. 4473 confiscating all normal and surtax net income over \$10,000 will yield only an additional \$3,500,000,000 in taxes—or just enough to pay for the Truman budget for 18 days.

Confiscating all normal and surtax net income over \$26,000 will produce only an additional \$713,000,000 in taxes—or just enough to pay for the Truman budget for 4 days.

Confiscating all normal and surtax net income over \$100,000 would yield only an

additional \$39,000,000 in taxes—or just enough to pay for the Truman budget for 5 hours.

This pending bill increases the ordinary normal tax on corporations by 5 percentage points. In addition, the so-called excess-profits tax is increased in this bill.

An idea of the increased tax imposed by H. R. 4473 over the tax burden just 12 months ago on various size corporations, even though they have no increased earnings, is shown below:

Earnings	Tax a year ago	Tax under H. R. 4473	Percentage increase
\$25,000.....	\$5,750	\$7,500	30.4
\$50,000.....	19,000	24,250	27.6
\$100,000.....	38,000	59,500	42.0
\$200,000.....	76,000	125,000	49.0
\$500,000.....	190,000	297,500	54.0
\$1,000,000.....	380,000	595,000	55.0
\$10,000,000.....	3,800,000	5,950,000	56.0

This pending measure also contains provisions for the withholding of taxes on dividends, royalties, and in some cases on interest. This means that before a corporation can pay out money for dividends that they must take 20 percent of that amount and remit it to the Federal Government. This will be done even though the individual owning some of that stock and who is entitled to the dividend owes no taxes. I can best point this up by citing a paragraph in the minority report which is as follows:

"If the flat 20-percent withholding provided for in this bill is to become law, then it seems to us that at the very least additional attention should be directed to the serious problem of preventing the unjust enrichment of the Government at the expense of the people who owe no taxes. For example, an elderly couple may have interest from corporate bonds and a few dividends which bring in \$800 a year and together with the husband's retirement pay have a yearly income of \$2,400. This couple will have no tax liability but they will be out of pocket \$160 next year as the result of withholding 20 percent on their \$800. Sometimes, around the middle of the following year they will, if a proper claim for refund is made, be reimbursed the \$160, but of course, by that time approximately one-half of this amount will already have been withheld on the current year's dividends, and by the end of the year they will be out of pocket the full \$160 all over again. The continuous withholding by the Government of an amount equal to approximately 10 percent of this couple's investment income will go on each year until they die or dispose of their investment."

This bill increases the excise taxes upon the American people by \$1,252,000,000. In the field of highway transportation alone the increased burden amounts to half a billion dollars. This is accounted for in the following manner:

½-cent-a-gallon increase in the Federal gasoline tax.....	\$210,000,000
2-cent-a-gallon gasoline tax to be applied to Diesel fuel.....	10,000,000
The increase of from 7 to 10 percent of the excise tax on automobiles and motorcycles.....	196,000,000

Increased tax on trucks, trailers and busses.....	\$61,000,000
The increased tax on automotive parts.....	56,000,000

The above figures are only the amount of the increase. They do not show the present Federal taxes. In addition to that, automobiles and gasoline are taxed heavily by every State in the Union and by some cities.

A number of additional items are selected under this bill for the imposition of excise taxes. Some of these new taxes were imposed by the committee even though the industries involved were not notified of the pending action at the time the public hearings were being conducted. They had no chance to explain how a particular excise tax might affect their industry. Such procedure should be frowned upon.

Soon after the war, corporation taxes were reduced. Later on the Eightieth Congress made a reduction in individual income taxes. A reduction of World War II excise taxes has been long overdue. The effect of the passage of this measure is to freeze these wartime taxes on certain selected items. Some of those taxes were put on for the express purpose of retarding production. The continuation of these wartime excise taxes has not only been disastrous to many industries but very unfair. For instance, the World War II tax on furs of 20 percent has had its adverse effect not only on the employees engaged in the manufacturing of furs but on the dealers and the fur farmers. Even during the war, the question could rightly be asked—why should a \$200 fur coat have a special tax of \$40 when a \$200 cloth coat had no tax of that kind? If the Federal Government expects to raise huge sums in excise taxes they should not attempt to do so by high taxes on a few selected items. There should be a greater uniformity of treatment for all industries.

Mr. Chairman, President Truman should have brought about a drastic reduction of expenditures before asking the Congress to increase the burdens of the already overtaxed citizens. This is not a question of the citizens declining to pay their portion of the cost of the Federal Government. This measure must be judged in the light of its effect upon our total economy. We cannot continue high tax rates like this and preserve our system of private enterprise in a strong, healthy, and expanding economy.

Mr. REED of New York. Mr. Chairman, I yield 7 minutes to the gentleman from Illinois [Mr. SHEEHAN].

Mr. SHEEHAN. Mr. Chairman, the tax bill under consideration is, in my estimation, a Socialist's dream to help bring on socialism without revolution. The present-day Socialists are smart enough to know that they can socialize income by the use of punitive taxation and thus liquidate the middle-class people of America. The once modest corporation and income taxes have been gradually raised to pay for wars and so-called defense projects; to finance farm subsidies; to extend aid to foreign countries, and to advance the social reforms of Roosevelt, Truman, and the give-away Democratic Party.

Aristotle, Leo XIII, the writers of the Constitution and the Federalist papers all knew the importance of the middle-class people to the welfare of a country. As Aristotle pointed out, the most perfect political community is one in which the middle class predominates. The successive boosts in income taxes, estate and gift levies are reaching the point of confiscation because the left-wing liberals think there is something unsocial in leaving something for your wife and children. These fake liberals want a leveling process and the liquidation of the middle class so that everyone is on the same plane without regard for ability, thrift, or willingness to work.

The taxation purge is the Socialist-Communist war of extermination against the middle classes. No Socialist regime can exist in a country that has a middle class or in which the spark of middle-class ideals can survive. Where Socialists are in power or want to achieve power, they now conduct—like our Korean War—a war of attrition, by gradually limiting property through confiscatory taxes.

Big government, big business, and big labor get bigger. This eventually makes it easier for big government to take over big business and big labor. Meanwhile the middle class is ground between big business and big labor. The middle class receives a decreasing proportion of the apparent increase in national wealth while it pays an increasing proportion of the very real skyrocketing tax burden. The main characteristic of the middle class is its independence or self-reliance. By saving a part of one's earnings one could provide against a day when earnings may cease to provide for sickness, to provide for old age, to give to charity.

But when people must depend on the Government for these responsibilities the middle class will no longer exist. They will be discouraged to a point where they will no longer fight for their ideals and we will find representative government on the way out.

The tax law voted by the House Ways and Means Committee follows closely the recommendations of the top officers of the CIO and I feel that the great majority of the CIO members do not know they are being taken for a Socialist ride. The political sting from taxes is far less when the tax burden is shifted to the middle class and to business and the committee has taken this course. I, personally, question the motives of this CIO tax bill, especially when I realize that a former leading legal mind in this CIO clique, formerly a darling of the Socialist followers of the Fair Deal, is a self-confessed Communist who will not reveal the names of his fellow Communists. I question their motives because one of their leading officers who is a Marxist Socialist took a course of study in Russia and no one has yet accused him of taking this Russian course as a sleuth for the United States Government.

Taxes not only raise money but cut deeply into our economy. We should not attempt an unjust equalization of income and thus weaken our capitalistic

system. Yet this is exactly what the Socialists want to do. Devise every spending plan possible, make the taxes higher and higher, make the individual place more dependence on the state and then you kill initiative and private enterprise, and make the state or socialism supreme.

That is what the present tax bill is doing because the Democratic administration has not given us a real economy budget and I will, therefore, have to voice the will of the majority of my constituents and vote against this socialistic tax bill.

Mr. DOUGHTON. Mr. Chairman, I yield 15 minutes to the gentleman from New Mexico [Mr. DEMPSEY].

Mr. DEMPSEY. Mr. Chairman, I have asked for this time more to get information than for any other reason, because I am somewhat confused. Recognizing as we all do that a tax bill is not easy to write—I have never seen one yet that suited everybody, and I am sure this one does not—I do want it known that I have great confidence in the chairman and the other members of the committee. I think they have done a splendid job and done the best they could under existing circumstances. But I do regret that the bill was not delayed until after the appropriation bills were acted upon. I say that because of the cuts we are making in the appropriation bills which should have some effect on how much money we must appropriate for the Federal Government.

I also feel that in appropriating the moneys we now are, it is not for the purpose that the Constitution decreed, that is, the upkeep and maintenance of the Federal Government. There is so much of this money being appropriated for redistribution to countries throughout the world that I am getting a little fearful.

The steady increase in excise taxes is a very disturbing thing. We are asking now for \$1,252,000,000 more in excise taxes. We already have more than \$8,000,000,000 in excise taxes, and I think this brings the total amount up to about \$11,000,000,000 in that form of tax.

The excise tax is the most vicious of all taxes because it is a hidden tax and you do not know what you are paying. Back in the early thirties we had no such thing as an excise tax. Now we have so many I do not think a member of the Committee on Appropriations or of the Committee on Ways and Means, or anyone in the Treasury Department knows half of them.

I was quite concerned a few months ago, after listening to a broadcast on a national network from California. The gentleman who was conducting the program was Mr. Walter O'Keefe. He had what we call a "jackpot question." The question was: How many concealed taxes are there in one pair of shoes? The different ones said 3, 5, or 10. One man got up and said 75. They all laughed, and they had trouble getting order. The answer was that there are 502 hidden excise taxes involved in the sale of a pair of shoes.

Then I began to realize the difference between the pair of shoes I used to purchase in 1933-39, which cost me about \$8,

and which now cost me \$22. The only difference in the shoe is that it is not as good as the one I bought in 1939. The difference in cost is entirely due to the excise taxes.

Mr. BUDGE. Mr. Chairman, will the gentleman yield?

Mr. DEMPSEY. I yield.

Mr. BUDGE. I am wondering if the gentleman has noted that this bill carries a new excise tax on bedsheets and pillowcases. Apparently our taxes are even going to bed with us now.

Mr. DEMPSEY. Well, they have been going to bed with us for a long, long time if our subconscious mind works at all. The laboring man, until recent years, did not have too much difficulty in purchasing an automobile. An automobile today is not a luxury conveyance, it is a necessity. Workingmen use it to go to work and bring the children to school and do other things that are necessary.

In the great State of New Mexico which I am privileged to represent, about the only transportation you can depend upon there is that which we provide for ourselves. We have no trolley cars, thank God. We have very few buses, except the transcontinental buses going from California to New York City and Chicago. So we provide our own transportation. It is the fourth largest State in the Union, covering 122,000 square miles. The distances between towns are great, oftentimes more than 50 miles. We must provide transportation. In the old days, a Ford car or a Chevrolet or a Plymouth sold for about \$1,000 or \$1,200. Today they run from \$1,800 to \$2,100, largely because of excise taxes.

I notice in this bill that the people in the brackets from \$1,000 to \$5,000 will pay \$1,081,000,000 in additional taxes. Those are the same people who will pay a goodly portion of the excise taxes, and I am fearful when this bill becomes law that the laboring people will call the attention of the employers to the fact that they must have more money. They can show the need. There will not be any question about the need. When they do, they will get an increase. When that happens, the farmer says, "What about my parity? It must be increased."

I do not want to see the dollar go down lower than it is. It is worth about 40 cents now. If it goes down to 25 cents, I would rather be in favor of taking the likeness of that great American bird, the eagle, off of it and putting a little sparrow on instead, because I do not like to embarrass the American eagle.

What we should be doing is to increase the purchasing power of the dollar, rather than decreasing it. All of this propaganda that you hear in certain quarters around Washington, which says that this inflation is due to the spending of the laboring class and that if you take the money away from them in taxation you will eliminate inflation, is pure nonsense. Inflation was created and is going on now because of the extreme spending of the Federal Government and the wasteful manner in which it was expended. I am not going into detail about some of these things, because we have too many investigations going on now to suit me. We have so many that

our people are beginning to question our form of government. I think it is the greatest government that any nation in this world has ever had. I want to see it preserved. I am not so sentimental that I would say to you, in part, that which I was going to say.

I think every dollar we need for the defense of this Nation or to help those who help us win this terrific conflict should be spent, but I am not naive enough to say or to think that when you give a man in uniform billions of dollars to spend and he has had no previous experience in purchasing, that you will achieve the greatest efficiency along that line. I think the men who represent the purchasing department of the Armed Services ought to be men of great ability along that line. You do not learn that in West Point or Annapolis. There you learn to have great military knowledge. We certainly recognize that such military knowledge has been used well in the various conflicts in which we have been engaged.

I am greatly disturbed about this bill. I am also disturbed about the immense effort put in by the distinguished Ways and Means Committee, all honorable and fine men, all doing the best job they can. But I sometimes wonder if we should completely take the word of those who desire to see us appropriate large sums of money until such time as we know what we can appropriate and what we can spend. The Federal Government is not much different from the State or even the individual's home, except that it has the power to tax. But the barrel is getting empty, as I visualize the situation today in the financial world, and I think our Government, like the head of a household, should look at his funds unless he wants to go into debt.

Our great chairman has told us there are three ways to meet this tax situation.

One is to pass this bill. Another is to cut appropriations. I have seen the chairman vote to cut appropriations around here, and I know how he feels about it. He would like to see every appropriation, in my opinion, cut to the bone, as I would. But unfortunately, he does not have all the power to do that; a lot of it rests in the agencies, and a lot rests with Members of Congress. The agencies and departments cannot spend more than we allow them to spend. I think sometimes we do not investigate the situation except to appropriate. I think that the heads of the committees of this great house of Congress should not only appropriate the moneys, but also they should follow through to a conclusion on how the moneys have been expended. That is part of the job. This is one of the most serious things we have to do. This session we have the greatest, the largest group of appropriation bills ever passed in the Congress of the United States, I am told.

Mr. STEFAN. Mr. Chairman, will the gentleman yield?

Mr. DEMPSEY. I shall be glad to.

Mr. STEFAN. I like the gentleman's approach on the income and outgo of our fiscal program. The gentleman at the outset of his very remarkable and edifying statement indicated that he

would like to know what we are going to appropriate before we start charging the people for the expense of Government.

Mr. DEMPSEY. That is true.

Mr. STEFAN. If we knew today what we were actually going to appropriate, what the decreases were going to be, if any, in any appropriation bill, I believe the Ways and Means Committee could come to this House today with a bill for taxes much reduced over the bill presented today. I read the report very carefully and I noted that the committee in one instance indicated how much we have obligated ourselves to spend. The President's budget asked for more than \$71,000,000,000-plus, but our obligations and appropriations according to the latest figures in the Committee on Appropriations will run over \$94,000,000,000.

I also notice in one part of the report that the reductions in appropriations at this time on bills considered in the House run something over a billion and a half dollars. My figures as a member of the Committee on Appropriations indicate that our reductions made in the House up to this time have run very close to \$3,000,000,000, taking in the Jensen amendment and other amendments.

Then there is another reduction that we effected. We had a bill in here amounting to \$6,500,000,000, a supplemental bill for the Defense Establishment. The first request came for \$10,000,000,000 but when it left the House it was a little over \$6,000,000,000, so another reduction was made by a conference between the Appropriations Committee and the agencies submitting that bill trimming it from \$10,000,000,000 to \$6,000,000,000-plus.

The total reduction, therefore, has been around \$6,000,000,000, taking into consideration the defense reduction as the result of that conference. There will be more reductions because we have \$8,500,000,000 in the machinery now, plus the \$60,000,000,000 bill for defense which will soon come before us, and there will be other reductions.

Why could we not hold this tax bill over as intimated by the distinguished gentleman from New Mexico until these appropriation bills are passed and we can actually measure the outgo and income of Government finances? What would the gentleman say to that?

Mr. DEMPSEY. I would like to see that, but we must consider that at this time of the year you would ordinarily expect the appropriation bills to have been acted upon, but the Senate because of so many investigations has not gone as far as the House has.

Mr. STEFAN. They are writing a concurrent resolution now to furnish the departments money through extending resolutions. The gentleman knows that when the Senate gets this bill it will never come out of the Senate until some time in September perhaps, probably later, and it will be very much amended. Your appropriation bills are delayed not due to the fault of members of the Appropriations Committee, I assure the gentleman.

Mr. DEMPSEY. I am not critical of the Appropriations Committee or any other committee. I think we are all doing the best we can.

Mr. STEFAN. We have plenty of time so that we should know how much money we are going to appropriate before this bill is passed by the Senate.

Mr. DEMPSEY. When you say that a man is earning \$5,000, that seems in terms of 1935 and 1936, a sufficient amount to take care of him and his wife, and perhaps a child or two, but with today's high prices where a dollar will only purchase about 40 percent of what it once did, that \$5,000 does not go quite so far.

The CHAIRMAN. The time of the gentleman from New Mexico has expired.

Mr. DOUGHTON. Mr. Chairman, I yield the gentleman two additional minutes.

Mr. DEMPSEY. Mr. Chairman, I want to say a few words about the gasoline tax. Today we have a tax on gasoline of 1½ cents, we have a tax on lubricating oils and various other items that a car needs in order to perform. We are adding another half cent. The total income last year from taxes on various automobile accessories amounted to \$1,450,000,000 to the Government. Those taxes were levied solely for the purpose of permitting the Federal Government to participate in road building in the various States. Some of the States did not have sufficient money to do this work themselves. We wanted a uniform road system throughout the United States and that was the method selected. It was a good method. No one should complain about that.

But the Federal Government is expending for roads today only \$531,000,000 of that more than one and one-half billion dollars. A lot of that goes to forest roads, which is all right, too. But the Federal Government is diverting nearly a billion dollars to other purposes. We are adding a half cent more which will also be diverted. The strict rule of the Federal Bureau of Public Roads is that you cannot divert moneys collected in the respective States from gasoline taxes for road-building purposes, and if you violate that rule you will be denied Federal participation. Then they, themselves, divert all of this Federal tax money, or most of it. As a matter of fact, the States would be better off to levy their own gasoline taxes and go on their own rather than to have the Federal Government do it.

This is not the fault of the Ways and Means Committee. I am simply telling you what occurs when you earmark a tax for a specific thing in Washington as compared to doing it in the States.

The CHAIRMAN. The time of the gentleman from New Mexico has again expired.

(Mr. DEMPSEY asked and was given permission to revise and extend his remarks.)

Mr. DOUGHTON. Mr. Chairman, I yield such time as he may desire to the gentleman from New York [Mr. ANFUSO].

(Mr. ANFUSO asked and was given permission to revise and extend his remarks.)

Mr. ANFUSO. Mr. Chairman, I have this day introduced a bill to establish in the Bureau of Customs the United States Customs Port Patrol and the United States Customs Border Patrol in order to improve the enforcement of the antismuggling laws.

This bill is principally directed against the smugglers of narcotics into the United States. Its purpose is to apprehend the drug before it gets into the country and thus robbing the smuggler of the great profit he would have derived from its sale in this country.

We all know that all narcotics originate outside our boundaries. The very abundant supply in the possession of thousands of individual peddlers throughout the country clearly indicates the necessity of tightly closing the doors of entry of the illegal traffic from planes, ships, and across our borders.

Imposing severe jail sentences on the peddlers will not prevent the traffic, because the business is too lucrative. Imposing the death sentence will be futile because no jury would enforce such a law against a small peddler while the big pin operating outside this country is left unpunished.

Besides, it must be borne in mind that the peddler of narcotics is usually an addict himself and a sick person. He needs medical treatment.

This bill will get at the smuggling racket at the source.

I want to take this opportunity to give credit for this proposed legislation to two individuals who have labored with me on it since April 23, 1951, when a statement was put in the CONGRESSIONAL RECORD by me that a bill would be forthcoming. They are Col. Charles I. Stengle, former Member of Congress, now legislative representative of Government Employees, and Lynn H. Fairfax, publicity director of Lodge No. 981 of the American Federation of Government Employees, himself a patrol officer for more than 25 years. Mr. Fairfax deserves a great amount of praise because he has made several trips to Washington at his own expense to sponsor this bill, and has also contacted many large organizations in this country which have been clamoring for an antismuggling bill.

Every Member of Congress will receive a copy of this bill, and it is hoped that all will join in its early passage.

The bill provides as follows:

A bill to establish in the Bureau of Customs the United States Customs Port Patrol and the United States Customs Border Patrol in order to improve the enforcement of the antismuggling laws

DECLARATION OF PURPOSE

SECTION 1. It is the purpose of this act to increase the efficiency and effectiveness of the Bureau of Customs, Department of the Treasury, in the administration of the laws relating to the prevention of the smuggling of articles, particularly narcotic drugs, into the United States, and, for such purpose, to establish by law in the Bureau of Customs two major law-enforcement bodies with adequate personnel and with the most efficient means and facilities available, including, where necessary, radio-equipped motor vehicles, small watercraft, and aircraft, for use in patrol work in harbors and along the coasts and other borders of the United States.

ESTABLISHMENT OF UNITED STATES CUSTOMS PORT PATROL

SEC. 2. There is hereby established in the Bureau of Customs, Department of the Treasury, a major law enforcement body, to be known as the United States Customs Port Patrol, which shall be under the supervision of the Commissioner of Customs, and shall be charged with the duty of enforcing the antismuggling laws, and the laws of the United States in general. There shall be in each port a division of the United States Customs Port Patrol. Each such division shall have as its head a chief Customs Port Patrol supervising officer, and such number of subordinate supervising officers and other Customs Port Patrol officers as the Commissioner of Customs deems necessary to enable such division to perform its functions under this act.

FUNCTIONS OF UNITED STATES CUSTOMS PORT PATROL

SEC. 3. (a) Customs Port Patrol officers shall be assigned to every pier and dock where any vessel from a foreign country or any vessel carrying cargo from a foreign country has berthed. Such assignment shall continue without interruption on a 24-hour basis as long as any foreign cargo remains on such vessel and as long as any such cargo is unladen from any such vessel remains on the pier or dock.

(b) Customs Port Patrol officers shall be assigned to every pier and dock where persons are disembarking from any vessel which has arrived from a foreign country.

(c) Customs Port Patrol officers shall be assigned, on a 24-hour basis, to every airfield used as a landing field by aircraft engaged in the transportation of passengers or freight to or from any foreign country.

(d) It shall be the duty of Customs Port Patrol officers so assigned under subsections (a), (b), and (c) to enforce, under the direction of Customs Port Patrol supervising officers, the antismuggling laws, and to perform such other related work as may be prescribed by the Commissioner of Customs.

(e) Customs Port Patrol officers are authorized and empowered, under the direction of Customs Port Patrol supervising officers, to make searches, including searches of all types of seagoing vessels, and to make seizures and arrests, in accordance with the laws of the United States and regulations of the Secretary of the Treasury.

(f) As used in this section, the term "pier and dock" and the term "pier or dock" includes any landing place prescribed as a landing place for manually operated or self-propelled small watercraft operating as marine taxis, and making contact with a seagoing vessel at anchor, which has arrived from any foreign country or which has any foreign cargo aboard.

REPORT OF EXPECTED DATE AND TIME OF ARRIVAL OF VESSELS

SEC. 4. It shall be the duty of the owner or operator of each vessel bound from any foreign country to a port of the United States to inform the customhouse at such port, or the customhouse nearest to such port, of the expected date and time of arrival of such vessel, taking into account weather and navigating conditions. Such information shall be supplied at least 24 hours in advance of the expected date and time of arrival of the vessel and in accordance with such regulations as the Commissioner of Customs may prescribe. Each such owner or operator who fails to report such information as provided in this section shall be fined \$500.

ESTABLISHMENT OF UNITED STATES CUSTOMS BORDER PATROL

SEC. 5. There is hereby established in the Bureau of Customs, Department of the Treasury, a major law-enforcement body, to be known as the United States Customs Border Patrol, which shall be under the supervision

of the Commissioner of Customs, and shall be charged with the duty of enforcing the antismuggling laws, and the laws of the United States in general. The United States Customs Border Patrol shall be organized in such manner as the Commissioner of Customs may prescribe, and shall consist of such number of supervising officers and other Customs Border Patrol officers as the Commissioner deems necessary to enable such Border Patrol to perform its functions under this act.

FUNCTIONS OF UNITED STATES CUSTOMS BORDER PATROL

SEC. 6. (a) It shall be the duty of Customs Border Patrol officers to make frequent patrols, by day and by night, on foot or on horseback, by motor vehicle, small watercraft, or aircraft, or by other means, along the coasts and other borders of the United States, in order to prevent and detect violations of the antismuggling laws, and the laws of the United States in general.

(b) Customs Border Patrol officers are authorized and empowered to make searches, seizures, and arrests in accordance with the laws of the United States and regulations of the Secretary of the Treasury.

AUTHORIZATION TO CARRY FIREARMS

SEC. 7. Customs Port Patrol officers and Customs Border Patrol officers are authorized and empowered to carry firearms in the performance of their duties under this act.

DISSEMINATION OF INFORMATION TO PERSONNEL OF THE CUSTOMS PORT PATROL AND THE CUSTOMS BORDER PATROL

SEC. 8. (a) The Commissioner of Customs shall establish such procedure as may be necessary to provide accurate and concise information, on a current basis, to all personnel of the Customs Port Patrol and the Customs Border Patrol with respect to all laws and regulations relating to the performance of their respective functions and all amendments and revisions of, and changes in, such laws and regulations.

(b) It shall be the duty of the Commissioner of Customs and of all supervising officers in the Bureau of Customs to transmit to all personnel of the Customs Port Patrol and the Customs Border Patrol information received from any investigative agency of the Federal Government or from any other source with respect to any suspected violation of any of the antismuggling laws.

AUTHORIZATION OF APPROPRIATIONS

SEC. 9. There are hereby authorized to be appropriated from time to time such sums as may be necessary to carry out the purposes of this act.

Mr. REED of New York. Mr. Chairman, I yield 10 minutes to the gentleman from Iowa [Mr. CUNNINGHAM].

Mr. CUNNINGHAM. Mr. Chairman, I am glad I follow the gentleman from New Mexico, as, in my opinion, he made a very excellent speech about this bill.

Mr. Chairman, this bill is not a tax bill. It is an increase-in-the-cost-of-living bill. I want to refer to the deception in this bill and when I say "deception" I am not criticising the Ways and Means Committee. I know of no 25 Members we could get who would do as good a job as the present members of the Ways and Means Committee. When I refer to the deception in the bill, I am aware of the fact that there probably has never been a tax bill in the Congress or in any State legislature that was not full of deception. This bill, however, seems to be almost 100 percent deception. Again I want to say, there is no criticism of the committee; it could not do otherwise with the conflicting views

that must have been presented to it by the various witnesses during 4½ months.

But, what do I mean by "deception?" The workingman, the low income worker, every citizen, is being deceived by this bill. This bill, as I understand, provides 12½ percent increase in the taxable income of individuals. Then it provides several increases on corporations. The fact of the matter is that increase on corporations will not be paid by a single one of the corporations. It is going to be paid by the average citizen. The workingman, everyone who goes to the store and buys anything that he uses or eats, will pay the increase in corporate taxes provided in this bill.

The distinguished gentleman from New Mexico made reference to the increase of one-half cent a gallon on gasoline. Who will pay that half cent? The man or the woman who drives the automobile. You wait until that tax goes on, and the price of gasoline will go up all over the United States just exactly one-half cent per gallon and the oil companies will not pay it.

This bill provides for one cent per package increase on cigarettes. The tobacco companies, the manufacturers of the cigarettes are not going to pay that one cent per package. The price of the package of cigarettes will go up one cent per package the day that tax becomes effective and the smoker or the consumer of the cigarettes will pay it.

It provides for a 7 to 10 percent increase in the tax on new automobiles. I ask you who will pay that tax? Will the automobile companies pay it? No. The purchasers of the automobiles, whether it be a Ford, Chevrolet, Cadillac, or Buick. It will not be paid by the automobile companies. I could go on through this bill with every item, and it is nothing but deception. It is kidding the people into believing that someone else is paying the tax that in fact they are paying. Next week we expect to have before this body a price control law or a bill to extend that law, the purpose of which will be to hold down prices. I ask you how can the price administrator fail to grant the manufacturer, the wholesaler, the jobber and the retailer an increase to offset the additional taxes that are provided in this bill?

Again, I say it is no particular criticism of this bill. It applies to any tax bill. Some years before I came to the Congress I was a member of a committee of the State Legislature which drafted our present State sales tax law. We spent a lot of time on that bill and a lot of research. Among other documents that came to us was a statement put out by the Ford Motor Co. telling the amount of money it had received from the sale of 1,000,000 cars in the first 11 months of the previous year. This statement showed that the Ford Motor Co. received \$745,000,000 for 1,000,000 cars or \$745 per car. It then went ahead to break down this money and show where it went, what the Ford Motor Co. did with the money it received for those automobiles. Approximately \$300 per car went for labor; a certain item for paint; another for upholstery; another for tires and tubes; another for batteries; another for glass, wiring and the like, and a cer-

tain amount for income on the investment of the company. But, the last item was the interesting one: \$145,000,000 for taxes paid by the Ford Motor Co. or \$145 per car. Who paid those taxes? Did the corporation known as the Ford Motor Co. pay them? Not one penny of them. Who did pay them? The people who bought the Fords. Who bought the most Fords? The working man, the farmer, the low-income wage earner. Yet there seems to be existent in our country a philosophy among our people that this Congress can impose more and more taxes on corporations and business and thereby they will be saved from paying these taxes. We are only kidding them when we do that, because the corporations do not pay the taxes.

I am so glad the gentleman from New Mexico preceded me, because he made the observation that he heard on some quiz program on the radio that in a pair of shoes there are 502 hidden taxes. I did not know the number was that large.

I recall 15 years ago when we worked on our tax bill out home the figures we had then, put out by the research department of the University of Iowa, were that on the average product all together there were 5.2 different taxes the purchaser paid. So the consumer does now, always has, and always will pay all taxes. There is no escape from it. You cannot write a tax bill where the consumer ultimately will not pay the taxes unless it be a capital levy tax.

Under this bill, there is not a person in the United States that can avoid paying taxes unless he spends not one penny, except those in our penal institutions and other institutions where everything is provided for them, because under this bill any time anyone goes to the store to purchase anything he is going to pay some of the taxes provided for in this bill.

I realize that such an observation is of little value except for one purpose. The distinguished gentleman from Ohio [Mr. JENKINS] rather alarmed me when he said, "I hope this will be the last tax bill. I am afraid it will be the last tax bill. It ought to be the last tax bill."

I believe I know what he was thinking. We have reached the saturation point. We cannot have another tax bill of this kind and survive. He hates to go to a sales tax. So do I, and I am not advocating it at this time. But apparently he and other members of the committee are thinking that if we again have to raise taxes some alternative will have to be found.

Therefore my suggestion to the Committee is this, that when that time comes let us throw everything we have out the window and start fresh from the bottom and build a tax program, out in the open, that will not kid anyone, that will not have so many indirect taxes, so everyone in the United States will know exactly what he is being taxed and not be fooled by it as he is being today under this bill and all other bills. I submit to you it can be done.

Mr. DOUGHTON. Mr. Chairman, I move that the Committee do now rise.

The motion was agreed to.

Accordingly the Committee rose; and the Speaker having resumed the chair, Mr. ALBERT, Chairman of the Committee

of the Whole House on the State of the Union, reported that that Committee, having had under consideration the bill (H. R. 4473) to provide revenue, and for other purposes, had come to no resolution thereon.

HOURLY OF MEETING TOMORROW

Mr. DOUGHTON. Mr. Speaker, I ask unanimous consent that when the House adjourns today, it adjourn to meet at 11 o'clock tomorrow.

The SPEAKER. Is there objection to the request of the gentleman from North Carolina?

There was no objection.

GENERAL LEAVE TO EXTEND

Mr. REED of New York. Mr. Speaker, I ask unanimous consent that all Members who have spoken on the tax bill in committee may be permitted to insert extraneous matter, such as tables, in their remarks, which they requested at the time.

The SPEAKER. Is there objection to the request of the gentleman from New York?

There was no objection.

PERMISSION TO ADDRESS THE HOUSE

Mrs. ROGERS of Massachusetts. Mr. Speaker, I ask unanimous consent to address the House for 1 minute and revise and extend my remarks and include certain extraneous matter.

The SPEAKER. Is there objection to the request of the gentlewoman from Massachusetts?

There was no objection.

PROPOSAL TO DISPERSE AMERICAN INDUSTRIAL PLANTS

Mrs. ROGERS of Massachusetts. Mr. Speaker, as I understand it, a dispersal plan has been recommended by a group in the other body which would prevent new industry from coming into areas where industries already exist. In Massachusetts we have industries that are flourishing and growing there. We also have some war industries, not enough. It seems to me, Mr. Speaker, very much like a plan that Henry Wallace had when he was the Secretary of Labor, which would make of Massachusetts—and he told me this very thing, and I believe it is also to be found in one of his books—a recreational State.

If our industrial plants are to be moved away and our labor moved away, that is exactly what will happen. It is an extremely dangerous thing, and I, for one, shall move to kill any measure which has that for its purpose. It is very bad for the whole country. The transplanting of labor and the removal of our plants and the prevention of industries coming into certain areas of the country would be very bad and would also greatly retard our war production.

CORRECTION OF ROLL CALL

Mr. ALBERT. Mr. Speaker, in the RECORD for June 20, 1951, on roll call No. 81, I am recorded absent. I was present and answered to my name. I ask unanimous consent that the RECORD and Journal be corrected accordingly.

The SPEAKER. Is there objection to the request of the gentleman from Oklahoma?

There was no objection.

PERMISSION TO ADDRESS THE HOUSE

Mr. EBERHARTER. Mr. Speaker, I ask unanimous consent to address the House for 1 minute.

The SPEAKER. Is there objection to the request of the gentleman from Pennsylvania?

There was no objection.

PROPOSAL TO DISPERSE AMERICAN INDUSTRIAL PLANTS

Mr. EBERHARTER. Mr. Speaker, I heard today of a very astounding plan, which has been suggested. It is the most astonishing thing that has been proposed for some time, in my opinion. It is a proposal to scatter the industries of this country out on the plains and deserts where there are no natural resources and no skilled labor and no transportation facilities available. Furthermore, such a plan could only be put into effect through the expenditure of Government money. It is one of those things that I can hardly believe. Think, for example, of establishing a steel mill on the desert, or taking the great electrical industry and moving it out to some area where there is no skilled labor and perhaps no railroads and no water. I understand that actually such a proposal has been accepted in a committee, and I hope the membership of the House, Mr. Speaker, will really consider the implications involved in a suggestion of that kind.

Mrs. ROGERS of Massachusetts. Mr. Speaker, will the gentleman yield?

Mr. EBERHARTER. I yield.

Mrs. ROGERS of Massachusetts. I understand that such a report has already been made and it is exactly to the effect that the gentleman has said. It will mean a great loss to all the districts that now have industries. It will mean the transplanting of labor and a great reduction in the prosperity of those areas and in the taxes which those areas contribute to the welfare of the Nation.

Mr. EBERHARTER. It certainly could not be done without the expenditure of vast sums of governmental money on uneconomic programs.

Mrs. ROGERS of Massachusetts. Like Mr. Wallace's plan to make a recreation center of New England instead of an industrial center.

Mr. EBERHARTER. Exactly.

The SPEAKER. The time of the gentleman from Pennsylvania has expired.

EXTENSION OF REMARKS

Mr. THOMPSON of Texas asked and was given permission to extend his remarks and include an article.

Mr. JUDD asked and was given permission to extend his remarks in three instances and include extraneous matter.

Mr. REES of Kansas asked and was given permission to extend his remarks and include an article.

Mr. VAN ZANDT (at the request of Mr. MARTIN of Massachusetts) was given permission to extend his remarks and include an editorial.

Mr. PATTERSON asked and was given permission to extend his remarks in three instances and include three editorials.

Mr. OSTERTAG asked and was given permission to extend his remarks and include an editorial.

Mr. MARTIN of Iowa asked and was given permission to extend his remarks and include some tables on Federal expenditures and receipts.

Mr. FLOOD (at the request of Mr. LIND) was given permission to extend his remarks and include an editorial.

Mr. EBERHARTER asked and was given permission to extend his remarks and include a communication from the Washington Post of June 21, 1951, entitled "MacArthur in Texas."

Mr. ROOSEVELT (at the request of Mr. EBERHARTER) was given permission to extend his remarks and insert an editorial from the New York Post.

Mr. RABAUT asked and was given permission to extend his remarks and include a newspaper item.

Mr. ENGLE (at the request of Mr. MILLS) was given permission to extend his remarks in two instances and include extraneous matter in each instance.

LEAVE OF ABSENCE

By unanimous consent, leave of absence was granted to Mr. HAYS of Arkansas (at the request of Mr. TRIMBLE), until Wednesday, June 27, 1951, on account of official business.

SENATE ENROLLED BILL SIGNED

The SPEAKER announced his signature to an enrolled bill of the Senate of the following title:

S. 929. An act to amend section 6 of the Central Intelligence Agency Act of 1949.

ADJOURNMENT

Mr. MILLS. Mr. Speaker, I move that the House do now adjourn.

The motion was agreed to; accordingly (at 5 o'clock and 1 minute p. m.), under its previous order, the House adjourned until tomorrow, Friday, June 22, 1951, at 11 o'clock a. m.

EXECUTIVE COMMUNICATIONS, ETC.

Under clause 2 of rule XXIV, executive communications were taken from the Speaker's table and referred as follows:

544. A letter from the Acting Librarian of Congress, transmitting the Annual Report of the Librarian of Congress for the fiscal year ending June 30, 1950, as well as a complete set of the Quarterly Journal of Current Acquisitions, the Supplements to the Annual Report; to the Committee on House Administration.

545. A letter from the Secretary of Agriculture, transmitting a draft of a proposed bill entitled "A bill to amend and extend the Sugar Act of 1948, and for other purposes"; to the Committee on Agriculture.

546. A letter from the Assistant Secretary of the Interior, transmitting copies of various acts and resolutions adopted by the Legislature of Hawaii during its recent session; to the Committee on Interior and Insular Affairs.

547. A letter from the Archivist of the United States, transmitting a report on records proposed for disposal and lists or schedules covering records proposed for disposal by certain Government agencies; to the Committee on House Administration.

548. A letter from the Secretary of State, transmitting a draft of a proposed bill entitled "A bill for the relief of certain officers and employees of the Foreign Service of the United States who, while in the course of their respective duties, suffered losses of personal property by reason of war condi-

tions and catastrophes of nature; to the Committee on the Judiciary.

549. A communication from the President of the United States, transmitting the budgets for the fiscal year 1952 in the amount of \$238,784,000 for administrative expenses of defense production activities (H. Doc. No. 172); to the Committee on Appropriations, and ordered to be printed.

550. A communication from the President of the United States, transmitting the budget for the fiscal year 1952 in the amount of \$31,800,000 for the Selective Service System (H. Doc. No. 173); to the Committee on Appropriations, and ordered to be printed.

551. A communication from the President of the United States, transmitting the budget for the fiscal year 1952 in the amount of \$535,000,000 for the Federal Civil Defense Administration (H. Doc. No. 174); to the Committee on Appropriations, and ordered to be printed.

552. A communication from the President of the United States, transmitting a proposed supplemental appropriation for the fiscal year 1952 in the amount of \$870,000 for the District of Columbia (H. Doc. No. 175); to the Committee on Appropriations, and ordered to be printed.

REPORTS OF COMMITTEES ON PUBLIC BILLS AND RESOLUTIONS

Under clause 2 of rule XIII, reports of committees were delivered to the Clerk for printing and reference to the proper calendar, as follows:

Mr. DAWSON: Committee on Expenditures in the Executive Departments. S. 718. An act to authorize the lease and purchase by the United States of the Young Men's Christian Association Building and premises in Phoenix, Ariz.; without amendment (Rept. No. 633). Referred to the Committee of the Whole House on the State of the Union.

Mr. HARRIS: Committee on the District of Columbia. H. R. 4431. A bill to extend and revise the District of Columbia Emergency Rent Act; with amendment (Rept. No. 634). Referred to the Committee of the Whole House on the State of the Union.

Mr. FOGGS of Louisiana: Committee on Ways and Means. H. R. 3490. A bill to amend the penalty provisions applicable to persons convicted of violating certain narcotic laws, and for other purposes; with amendment (Rept. No. 635). Referred to the Committee of the Whole House on the State of the Union.

Mr. COOLEY: Committee on Agriculture. H. R. 4475. A bill to amend the Agricultural Adjustment Act of 1938, as amended; without amendment (Rept. No. 636). Referred to the Committee of the Whole House on the State of the Union.

PUBLIC BILLS AND RESOLUTIONS

Under clause 3 of rule XXII, public bills and resolutions were introduced and severally referred as follows:

By Mr. ANFUSO:

H. R. 4544. A bill to establish in the Bureau of Customs the United States Customs Port Patrol and the United States Customs Border Patrol in order to improve the enforcement of the antismuggling laws; to the Committee on Ways and Means.

By Mr. BAILEY:

H. R. 4545. A bill to provide for Federal financial assistance to the States and Territories in the construction of public elementary and secondary school facilities; to the Committee on Education and Labor.

By Mr. BERRY:

H. R. 4546. A bill to provide for the education, medical attention, relief of distress,

and social welfare of Indians in the State of South Dakota; to the Committee on Interior and Insular Affairs.

By Mr. COOLEY:

H. R. 4547. A bill to amend the Defense Production Act of 1950; to the Committee on Banking and Currency.

By Mr. CELLER:

H. R. 4548. A bill to amend the Immigration Act of February 5, 1917, to safeguard the internal security by regulating the discharge of alien seamen in the United States, and for other purposes; to the Committee on the Judiciary.

By Mr. CLEMENTE:

H. R. 4549. A bill to establish a hospital for juvenile drug addicts; to the Committee on Interstate and Foreign Commerce.

By Mr. BATTLE:

H. R. 4550. A bill to provide for the control by the United States and cooperating foreign nations of exports to any nation or combination of nations threatening the security of the United States, including the Union of Soviet Socialist Republics and all countries under its domination, and for other purposes; to the Committee on Foreign Affairs.

By Mr. CAMP:

H. R. 4551. A bill to provide for the acquisition of a site for the new Federal building in Newnan, Ga., adjoining the existing Federal building there as an economy measure before land value has increased as a result of land improvement; to the Committee on Public Works.

By Mr. LUCAS:

H. R. 4552. A bill to establish a Wage Stabilization Board, to define its functions, and for other purposes; to the Committee on Banking and Currency.

By Mr. SHAFER:

H. R. 4553. A bill granting cost-of-living increases to certain members and former members of the Armed Forces who are now or hereafter receiving or entitled to receive retired, retirement, or equivalent pay by reason of physical disability; to the Committee on Armed Services.

By Mr. CELLER:

H. J. Res. 274. Joint resolution to provide for the continuation of operations under certain mineral leases issued by the respective States covering submerged lands of the Continental Shelf, to encourage the continued development of such leases, to provide for the protection of the interests of the United States in the oil and gas deposits of said lands, and for other purposes; to the Committee on the Judiciary.

By Mr. LANTAFF:

H. Con. Res. 125. Concurrent resolution providing a Code of Ethics for Government Service; to the Committee on Post Office and Civil Service.

By Mr. BOYKIN:

H. Con. Res. 126. Concurrent resolution providing a Code of Ethics for Government Service; to the Committee on Post Office and Civil Service.

By Mr. BOLLING:

H. Res. 265. Resolution to provide for a Select Committee on Problems of the Aging; to the Committee on Rules.

By Mr. CASE:

H. Res. 266. Resolution to provide for a Select Committee on Problems of the Aging; to the Committee on Rules.

By Mr. HESELTON:

H. Res. 267. Resolution to provide for a Select Committee on Problems of the Aging; to the Committee on Rules.

MEMORIALS

Under clause 3 of rule XXII, memorials were presented and referred as follows:

By the SPEAKER: Memorial of the Legislature of the State of Wisconsin, memorial-

EXECUTIVE OFFICE AND INDEPENDENT
EXECUTIVE AGENCIES APPROPRIATION
BILL, 1952

Mr. THOMAS. Mr. Speaker, I ask unanimous consent to take from the Speaker's desk the bill (H. R. 3830) making appropriations for the Executive Office and sundry independent executive bureaus, boards, commissions, corporations, agencies, and offices, for the fiscal year ending June 30, 1952, and for other purposes, with Senate amendments thereto, disagree to the Senate amendments and agree to the conference asked by the Senate.

The SPEAKER. Is there objection to the request of the gentleman from Texas?

Mr. PHILLIPS. Mr. Speaker, reserving the right to object, may I ask the gentleman from Texas whether I am correct in the assumption that the other body in acting upon this bill since we have last seen it has increased the amount of the total appropriations?

Mr. THOMAS. Yes, by some \$62,000,000 over and above the amount fixed by the House.

Mr. PHILLIPS. I have a figure in front of me of \$66,432,303.

Mr. THOMAS. That is approximately correct. They raised the House figures that much.

Mr. PHILLIPS. Am I correct in the assumption that when this bill goes to conference the conference committee will consist of the members of the subcommittee in addition to the gentleman from Missouri [Mr. CANNON] and the gentleman from New York [Mr. TABER]?

Mr. THOMAS. I did not understand the gentleman.

Mr. PHILLIPS. The conference committee will consist of the seven members of the subcommittee, in addition to the chairman of the full committee and the ranking Republican member of the full committee?

Mr. THOMAS. We will be glad to include the gentleman from New York [Mr. TABER] if the gentleman so desires.

Mr. JAVITS. Mr. Speaker, reserving the right to object, I would like to know from the gentleman whether or not this is the usual conference request without instructions to conferees? They are free to act in accordance with the rules of the House?

Mr. THOMAS. That is right.

The SPEAKER. Is there objection to the request of the gentleman from Texas? [After a pause.] The Chair hears none, and appoints the following conferees: Messrs. CANNON, THOMAS, GORE, ANDREWS, YATES, TABER, PHILLIPS, COUDERT, and COTTON.

REVENUE ACT OF 1951

Mr. DOUGHTON. Mr. Speaker, I move that the House resolve itself into the Committee of the Whole House on the State of the Union for the further consideration of the bill (H. R. 4473) to provide revenue, and for other purposes.

The motion was agreed to.

Accordingly the House resolved itself into the Committee of the Whole House on the State of the Union for the further consideration of the bill H. R. 4473, with Mr. RAINS in the chair.

The Clerk read the title of the bill.

Mr. REED of New York. Mr. Chairman, I yield 35 minutes to the gentleman from Pennsylvania [Mr. SIMPSON].

Mr. SIMPSON of Pennsylvania. Mr. Chairman, I think the debate yesterday, among other things, certainly disclosed the fact that the job imposed upon the Ways and Means Committee is a very heavy and severe one. In my opinion, in view of what I choose to call the lack of close cooperation between the spending agencies of Government and our committee, which is the taxing agency, the job of balancing the budget is an almost impossible job when those in charge of spending are on a spending spree. There is not an individual in this room but who knows that if this administration is given a dollar it will spend a dollar and twenty cents or more. It has proved that throughout the years that have passed, and this great Committee on Ways and Means, because it attempts to do what has proved to be an impossible job, has again done what the majority considers the best it can do. But, at that we failed miserably, for on that basis we do not give the administration the money they say they are going to spend in the next 12 months. What is even worse, the fact that we bring this bill out short of what is demanded is, in my opinion, an indication that the members of the Committee on Ways and Means of both political parties know beyond any doubt that we have scraped the bottom of the tax barrel, that we are now in the wood, if you please, and that under our economy as it exists today there is no way short of actual confiscation or short of imposing taxes upon the people who cannot afford to pay them without very seriously crippling their standards of living, and there is no way by which this spending spree of the current administration can be met and the budget balanced.

The members of the committee know what the alternative is, and it is more inflation. Some foolish individuals have said, "Well, the tax receipts next year will be greater than anticipated or estimated. We will have some inflation, and instead of collecting \$66,000,000,000, if we pass this bill in conjunction with existing law, we will collect more than that and the budget will be balanced despite the apparent deficit." Well, that is only wishful thinking of the most dangerous kind, because if you have inflation, and if thereby the base upon which the taxes are levied is broadened, then everything you buy will have increased correspondingly and inflation will be out of hand surely, as it has been, and we will be in a most dangerous situation. I think that the time has come for every Member of this body to realize the truth, to realize that fact which I have just stated to you, that we have and are now scraping the bottom of the tax barrel and that any further steps will result in real suffering upon the lower-income groups in particular, and a retarding of our expansion of industries so essential in this time of war. Do you realize that 1 year ago today we were meeting with every expectation that we were going to cut a billion dol-

lars off the tax burden of the American people? How utterly little we knew of the facts of life when an administration was so taken by surprise that within the following 12 months three very large new tax bills have imposed and will impose new taxes in the amount of \$17,000,000,000 and when, after having imposed those taxes, we know in advance that the budget will not, and what is worse, cannot be balanced if the present spending spree continues.

Mr. FULTON. Mr. Chairman, will the gentleman yield?

Mr. SIMPSON of Pennsylvania. I yield to the gentleman from Pennsylvania.

Mr. FULTON. I would like to compliment the gentleman on his basic premise. I would like to ask this question, Does not the gentleman agree that the premise that the higher the tax the better the fight against inflation is completely incorrect?

Mr. SIMPSON of Pennsylvania. Oh, yes, it is entirely fallacious, and I think this bill illustrates that, and I do full justice to all the members of the committee. They know it. They do not take this bill with an expectation it will stop inflation. I think I am speaking for them on that because it is obvious.

In the first place, I will say to the gentleman from Pennsylvania, we increased the tax bill of the lowest income taxpayers 12½ percent. We thereby give him the most valid argument for an increase in his wages, for that individual, I know and the gentleman knows, is barely making ends meet today.

At the other end of the bill we impose taxes upon that man's employer, the corporation, on the theory as expressed by some men here when the rule was under consideration that, oh, a corporation is big, and it can afford to pay the taxes, forgetting entirely that a corporation never has one single penny to pay in taxes unless it first of all takes it from the man that buys the product of that corporation. And who are the customers? Why, they are the millions upon millions of low-income groups in our country. Do you realize there is not a corporation of any size in the country today that could remain in business 1 year if it were not for that mass purchasing power of the American people?

Mr. FULTON. The effect of the bill then, as I understand the gentleman, all through every wage and salary group, is to cut down the incentive to hustle, to work, and to produce, which is inflationary; and secondly, when it is putting a 12½ percent tax on the incomes of the lowest groups, it is then making greater pressures for further wage and price increases, which again makes it inflationary.

Mr. SIMPSON of Pennsylvania. That is true. That is one of the things it does. It causes suffering, too. Imagine the group who are earning less than \$1,000 a year, who are taxed today, having their taxes increased, or the group earning less than \$2,000 having theirs increased. It requires desperate remedies. It does seem to me that 12½ percent is too large an increase, particularly as the net effect of the bill, as I see it, is inflationary.

Mr. DONDERO. Mr. Chairman, will the gentleman yield?

Mr. SIMPSON of Pennsylvania. I yield to the gentleman from Michigan.

Mr. DONDERO. The gentleman spoke of the increased spending on the part of the Government. Perhaps the most amazing example of that is that the State Department in 10 years, from 1940 to 1950, increased its cost to the American taxpayers from \$20,000,000 to \$361,000,000, or 1,800 percent in 10 years. I do not believe this Government or any other government on the face of the earth can continue that program of spending and survive.

Mr. SIMPSON of Pennsylvania. One might wonder how that was foisted upon the Members of this House and the Congress, yet I am told that the ticker tape here in our lobby yesterday carried a story to the effect that many of the representatives of the American Government abroad are right now on their way back home for the avowed purpose of having increases made in their budgets, in their allowances, and that they are coming here to exert pressure or influence or one thing or another to induce Congress to pass legislation which will inure to their benefit.

Mr. HOFFMAN of Michigan. Mr. Chairman, will the gentleman yield?

Mr. SIMPSON of Pennsylvania. I yield.

Mr. HOFFMAN of Michigan. It is my understanding from what the gentleman has already said that his committee, no matter how it might try, had not been and would not be able to get money enough to meet the appropriations we are making.

Mr. SIMPSON of Pennsylvania. At the level at which they are being made. We have proved we are not able to raise sufficient money to balance the budget.

There is one other phase of this tax picture we should consider.

Mr. HOFFMAN of Michigan. If the gentleman will yield further, then the obvious answer is that until we cut down appropriations the gentleman's committee is not going to get anywhere in balancing the budget?

Mr. SIMPSON of Pennsylvania. I am of the opinion that we cannot and will not balance the budget unless we are willing to cause such undue sacrifices by the low-income groups of our people that they cannot stand it, or unless we are willing to actually have the Government take over and operate our business.

What we have been doing in recent years through our tax program, as a result of what has been called a soak-the-rich policy—and I am not here defending the rich because almost without exception they are eliminated today, and you will recall you were told yesterday by the gentleman from New Jersey how extreme the taxes are and how much money must be paid to an individual in order that he may retain forty or fifty thousands of dollars income—for example, I recall that in order to have \$50,000 remaining in a man's hands, he must receive a salary of \$500,000, and of course you realize that that \$500,000 will be included in the cost of producing the article that the corporation manufactures, and \$450,000 will go back to the

Government with \$50,000 being retained by the man.

But as I was saying, as a result of what has been called the soak-the-rich policy, we have wiped out that group of taxpayers who have in the past been paying a large share of our tax burden. They are gone.

As you were told yesterday, if we were to take every penny they earn, when you get above \$10,000 we would have sufficient money to operate our Government for only a few months.

The result of all that is that the burden of any tax increase which comes along in the future will rest squarely upon the people who earn from five to ten thousand dollars. And it will not be for only 1 year that they assume the burden. They will assume it permanently. You will have eliminated the great source of income—people who earn more than \$10,000 and the people who have in the past provided the capital by which jobs have been provided. They will be gone.

Under the bill before us, when and if it becomes law, the man who has money and who is in the high-income brackets, but has his money invested in business will, I think, be foolish if he does not sell that stock and invest the proceeds in United States Government bonds, or in tax-exempt securities, unless he is one of those who is motivated, as I will admit he should be, and as was described by our great chairman yesterday, a really patriotic man. That man will take it easy unless he is such a person. And who will suffer if the man takes his money out of business and puts it into Government bonds or tax-exempt securities? Why, the worker, the man who is going to have all the tax burden imposed upon his shoulders. He is the man who will suffer. There will not be jobs unless the Government proceeds to provide the jobs. I do not think there is a man or woman in this audience who wants the Government to assimilate the industries of our country.

Why, today, taxes are so high that in order for us to expand our industries to take care of the war effort we have to have special tax concessions which we call accelerated amortization. In other words, Government has to say to industry—industry which wants to expand, "You go out and build a new plant and help us win this Korean police action." And industry is happy to do it. But looking over their expense accounts, advertising the fact that they want to sell stock and secure money to expand their plants, they simply do not have the money.

So I believe it is about \$20,000,000,000 that industry has already asked our Government to give them special tax concessions on so that they can charge off the cost of their new plant in 5 years, instead of the customary period of from 15 to 20 years. Billions upon billions of dollars are being given to industry on that basis. I am for it. I am for it only because our tax laws so penalize our corporations that they do not have the money with which to expand.

It was stated yesterday that the corporations will have a lot of money left this year under this bill after they pay

their taxes. They will have a lot of dollars left, there is no doubt about that, but the dollars are not the equivalent of the dollars of only 2 or 3 years ago. At that time, after the corporations paid their dividends—and I point out that they must pay dividends or they will not have any capital to invest in business—after they had paid their dividends and after they had paid their taxes—and they must pay their taxes—the money which remained in their hands amounted to about \$17,000,000,000. Now it is said because the corporations are earning \$48,000,000,000, as estimated in the current year, a figure which is contestable in view of certain current economic conditions—but accepting the figure of forty-eight billion and knocking off this 59-percent tax levied against them, which we are doing in this bill, it is said they will have about \$21,000,000,000 remaining in their hands. From that they will pay their dividends of about one-third, which is about \$7,000,000,000, leaving \$14,000,000,000. It is that money which they will have to maintain the current industrial plants of our country and to use as their share of the cost of expanding their industry. They had \$17,000,000,000 before dividends from 1946 to 1949, but the comparison of \$21,000,000,000 today with that \$17,000,000,000, keeping in mind the greatly increased cost, and keeping in mind the fact that people today will not invest in business with the same freedom as they did a few years ago, you will find that business will not be able to expand as it must do if the industrial might of America is to help us win this war in Korea.

Under this bill we have raised the taxes on corporations far beyond what President Truman and Secretary Snyder said was the amount we should increase the taxes to; namely, 55 percent. We do not do it on corporations that are making great profits. We go into your community, and your community, and we pick out any small corporation, perhaps your milk distributor or your coal dealer or your bank, and we say to that corporation: "If you do not earn one penny more than you earned back between 1946 and 1949, we are going to say that you have an excess profit; that you are a profiteer as a result of the Korean War, and we are going to soak you a higher tax of 25 percent on that which you think is normal; that which you earned between 1946 and 1949. We are not going to tax you 52 or 55 percent, but on 25 percent of what you earned back in those years we are going to soak you 82 percent. You will have \$18 left out of \$100. You can do with that what you want to."

What will you do? Perhaps you will take a little trip, have some heavy traveling expenses, because it is only an 18-cent dollar; or some man who has worked for you a great many years comes in and says, "I would like to have an increase in wages." You say, "Oh, sure. I will give you \$500 or \$1,000, because it only costs me \$40 and Uncle Sam will pay the rest." That is inflationary. That is what will happen under this excess-profits tax which this committee adopted, and adopted, I am sorry to say,

without any hearings, and I might almost say adopted without any discussion in our committee. It just is not right. No. This taxing program has got out of hand, and the people who are going to bear the brunt of it are your neighbors and mine, the little people, and they are going to do it very soon if we do anticipate balancing the budget.

The CHAIRMAN. The time of the gentleman from Pennsylvania [Mr. SIMPSON] has expired.

Mr. REED of New York. Mr. Chairman, I yield the gentleman two additional minutes.

Mr. SIMPSON of Pennsylvania. I yield to the gentleman from New York.

Mr. REED of New York. I want to congratulate the gentleman on the fine, constructive way he has presented this tax matter. I am interested in the expansion of industry to meet the demand for employment on the part of the youth of the country. Many will be employed in war but there are many more who will have to be employed in industry if we are going to maintain our economy.

Most of the savings that go into venture capital, that is new industries in small communities and in large communities, has to come from the savings of the people, but under this tax bill they cannot save.

If we are going to make normal expansion and employ the people of this country who need to be employed it will take \$18,000,000,000 a year, and that has to come from these people who are now going to be so heavily taxed that they cannot save to invest in new enterprise.

Mr. SIMPSON of Pennsylvania. The gentleman is right.

Mr. REED of New York. The thing that is lost sight of by labor itself is the fact that somebody ventures his capital to give them a job in many instances as high as \$40,000—that is the risk, that is the amount somebody has saved to give one man a job. Dry that up and you dry up the payrolls of this country.

Mr. SIMPSON of Pennsylvania. Of course; and the only capital comes from those who have worked and saved it, but now they are going to dry it all up in Federal taxes and there will be nothing left.

Mr. SUTTON. Mr. Chairman, will the gentleman yield?

Mr. SIMPSON of Pennsylvania. I yield.

Mr. SUTTON. Would not the gentleman agree that the new slogan should be "Old taxes never die; they just stay, and stay, and stay."

Mr. SIMPSON of Pennsylvania. I am sure the old taxes do not die; they stay with us, unfortunately, and the spending spree continues. The effect of taxation ordinarily would be a deterrent to inflation, but unfortunately the spending gets completely out of hand as a result of these taxes and induces inflation.

Mr. ARMSTRONG. Mr. Chairman, will the gentleman yield?

Mr. SIMPSON of Pennsylvania. I yield.

Mr. ARMSTRONG. In view of what the gentleman has said in connection with the Committee on Appropriations, I wonder if he can inform this House as to

whether there is any liaison between that important committee and the important committee of which he is a member to this extent: Can the gentleman tell us whether or not the leaders of the Committee on Appropriations have taken into account the very obvious facts the gentleman has mentioned and whether they have shown any indication of trimming their program to those facts?

Mr. SIMPSON of Pennsylvania. Our very distinguished chairman, the gentleman from North Carolina [Mr. DOUGHTON], and our ranking minority member, the gentleman from New York [Mr. REED], have undoubtedly held consultations with their respective counterparts on the Appropriations Committee, but I will wager anything that the recommendations of the gentleman from North Carolina do not bind in any sense, do not control at all, the actions of the leadership of the Committee on Appropriations. I think they do consult, but there is nothing formal.

Economy, in my opinion, is the only way by which we are going to get a balanced budget in any true sense of the word. Do you realize that if we should be able to save \$1,000,000,000 only, that we could take off the tax roll every one of the taxpayers who pays a tax on \$1,000 or \$2,000 of his adjusted gross income? And there are 8,800,000 of them; they could all be taken off the rolls. There are 42,000,000 people who pay income taxes. The average divided between that number would be \$600 per year as the average of all income-tax payments that are made, and if you save just \$1,000,000,000, 1,666,666 of them could be taken off the tax rolls.

Mr. H. CARL ANDERSEN. Mr. Chairman, will the gentleman yield?

Mr. SIMPSON of Pennsylvania. I yield.

Mr. H. CARL ANDERSEN. The gentleman referred to the liaison which should exist between the Committee on Appropriations and the Committee on Ways and Means. Two days ago we had a good example on the floor of the House here of how Congress binds the Committee on Appropriations by authorizing without real study the construction of veterans' hospitals amounting to \$335,000,000. Who is responsible except the people right here in the House, those who do not have the fortitude to vote occasionally against authorizing expenditures?

Mr. SIMPSON of Pennsylvania. The gentleman, a member of the Appropriations Committee, has made his point most effectively and I compliment him. The question that was asked me was: Is there liaison between the Ways and Means Committee and the Appropriations Committee? I replied that there was to a certain extent.

Mr. JENKINS. Mr. Chairman, will the gentleman yield?

Mr. SIMPSON of Pennsylvania. I yield to the gentleman from Ohio.

Mr. JENKINS. The gentleman will agree with me, I am sure, that we may expect the Appropriations Committee to take care of the expenses of the Nation. That is distinctively a function of the

Executive. Does not the gentleman agree with me on that?

Mr. SIMPSON of Pennsylvania. Yes. The Executive makes the recommendations and the Appropriations Committee scrutinizes them and it is endeavoring to do a proper job.

Mr. JENKINS. Yesterday in my speech I took this position, and I think the gentleman agrees with me from the fine speech he has already made, that so far nobody can truthfully say that the Executive, the President of the United States, and those about him have ever shown any sign of wanting to economize and to meet the cry of the people all over the Nation who are asking for economy.

Mr. SIMPSON of Pennsylvania. The President has given lip service to balancing the budget and to economizing but I personally do not see where he has made any substantial effort with respect to either of these items.

Mr. DOUGHTON. Mr. Chairman, will the gentleman yield?

Mr. SIMPSON of Pennsylvania. I yield to the gentleman from North Carolina.

Mr. DOUGHTON. The gentleman from Pennsylvania has inveighed quite eloquently against the spending spree of the present administration. I would like to ask him if in his opinion the situation with which we are now confronted is not due so much to the spending spree of the administration as it is to probably the spending action of the Congress? It is the spending action of the Congress, which is more acute right now than the spending spree of the administration.

Mr. SIMPSON of Pennsylvania. That is a bit of play on words. After all the majority party here is charged, and quite properly so, with looking after the program of the President of the United States. It is true that the Congress does pass the bills, but, as I said, when any government becomes so strong that it can send out all over the world and instruct its representatives to come back and put pressure upon Members of the Congress, I think the powers of that particular administration are altogether too strong.

Mr. DOUGHTON. If the gentleman believes that in a time of prosperity we can raise revenue, is he optimistic enough to believe that, taking into consideration the increased taxes as proposed in this bill or otherwise, there will be a possibility of votes on his side to reduce the budget something like that contained within this bill, probably \$11,000,000,000 of a reduction? In other words, is there a possibility of the Congress doing that?

Mr. SIMPSON of Pennsylvania. My point is that no matter how much we raise taxes we cannot balance the budget. The economy cannot stand it so long as the spending goes on, on and on, with apparently no effort to control it. It may be that conditions are such today that we cannot hope to balance the budget and that we are going to have to have deficit financing.

Mr. DOUGHTON. In the consideration of this bill in committee I never heard a single Member of the minor-

ity—of course my memory is not perfect—contend that we should not raise some additional revenue in the bill we had under consideration. This is all new to me since we came in here. I think we all realized we have to have some additional revenue, that that is necessary.

Mr. SIMPSON of Pennsylvania. Mr. Chairman, there were many votes to increase revenue by Members on both sides of the House. The question is how much we can increase it. But the thing I am worried about is the fact the more we tax the more they are going to continue to spend and I say we cannot continue indefinitely doing that.

Mr. MASON. Mr. Chairman, will the gentleman yield?

Mr. SIMPSON of Pennsylvania. I yield to the gentleman from Illinois.

Mr. MASON. The point I want to make is that in the last analysis there is one department with its 1,800 percent increase in the last 10 years could not have done that unless we had voted the funds, and in the last analysis the blame lays upon our shoulders for voting that way.

Mr. SIMPSON of Pennsylvania. The greatest good, in my opinion, that could come from this tax bill would be to have every Member of this Congress realize that we are today scraping the very bottom of the barrel, and if we hope to balance the budget at any time in the future we can do it only at the expense of greatly lowering our standard of living, particularly the lower income groups where the vast amount of money is today.

Mr. DOUGHTON. Mr. Chairman, I yield 10 minutes to the gentleman from Texas [Mr. COMBS].

Mr. COMBS. Mr. Chairman, first of all I want to pay tribute to my fellow members on the Committee on Ways and Means. I have only been a member of that committee about 3 years. I think if the American people could have had the privilege of looking in on our sessions of more than 4 months behind closed doors and had seen the earnestness of every member and the freedom behind those closed doors from political and partisan considerations in writing this tax bill, they would realize we tried the best we could to raise the revenue that every one of us knew had to be raised, but to do it at the least harm, as it were, to groups or individuals in the application of the tax to be levied. The work of that committee, in spite of the fact that it is burdensome, was rendered pleasant first of all by the geniality and the consideration of our honored chairman, whom we have the greatest affection for, and the ranking minority member, the distinguished gentleman from New York [Mr. REED], who in every sense is a kindly and considerate gentleman. It was a pleasure to serve with those gentlemen, as it was with all the other members of the committee. Although partisanship creeps out here on the floor—and that is traditional; it has been that way from time immemorial—the majority party having the responsibility of tendering such a measure as this defends it as the best that could be offered, and the

minority party members are free to criticize it from every viewpoint. But, I dare say to you that 95 percent of the provisions that went into this bill went in there without the slightest partisan vote. In most instances the vote was right across the table without respect to party. I recall one amendment that I offered was adopted by a vote of 4 Democrats, including myself, and 10 Republicans. That is not unusual. A great deal of what is contained in this bill is in there by unanimous consent or by votes of members cast regardless of party. To me it has been inspiring, in spite of the tremendous burden, to see the earnestness and the consideration that we all gave regardless of party to the serious task we had to perform.

Mr. Chairman, at various times in this debate reference has been made to alleged reckless spending of the Administration. It has been charged that inflation has been caused by deficit financing.

That charge has been made repeatedly.

Such charges are completely without foundation. The current inflation is due to a number of causes, but deficit financing by the Federal Government is not one of them. Let us get the record straight. There has not been one dime of deficit financing by the Federal Government in 5 years. On the contrary, we have been on a pay-as-we-go basis for 5 years. Furthermore since June 1946, the Federal debt has been reduced by about \$15,000,000,000. Half of this \$15,000,000,000 reduction resulted from the application of surplus cash left over from war financing. The other half represented debt reduction resulting solely from an over-all budget surplus in excess of \$7,000,000,000 during this period of 5 years. During that same period insurance companies and savings banks reduced their holdings of Government securities by more than \$8,000,000,000 to help finance postwar expansion of industry and home building. But I think the most encouraging thing of all is the investment by individuals in savings bonds and deposits in savings accounts. After World War I there was a tremendous amount of marketing of Liberty bonds, and the price went down to 80 cents on the dollar. That great loss fell very largely upon private citizens who had invested their savings in such bonds. No such thing has happened since the end of World War II.

The amount of savings bonds outstanding has gone up by \$9,000,000,000 since 1946—\$4,000,000,000 in E bonds alone. Today the amount of savings bonds held by individual investors is \$55,000,000,000, and of this amount, \$34,000,000,000 is represented by E bonds which, as you know, are purchased largely by wage earners, small salaried people, and other small investors. What is more, the savings accounts of private institutions, banks, savings and loan associations, and the like have shown a very substantial increase. The figures show that the sale of the \$25 and the \$50 E bonds for the first 5 months of this year were also 11 percent higher than for the corresponding period of 1950. That the increase of 15 percent of the savings bonds holdings of individuals

during the past 5 years is not competitive with private financing is shown by the fact that there has been an increase of 25 percent in mutual savings deposits; 40 percent in life insurance; and, 85 percent in savings and loan shares during that period.

Are we spending ourselves into socialism? That charge has been made. Nothing could be farther from the truth. In addition to what I have already said about the savings, there is this further astounding fact. Since the end of World War II, American industry has expended \$110,000,000,000 in new plants, plant expansion, and new equipment. This represents the investment of the American people and expresses their faith in the security and value of the American free enterprise system.

I have taken the information used here from an address delivered by the Secretary of the Treasury, Hon. John Snyder, before the Bond Club of Chicago on June 13, 1951.

Secretary Snyder and his treasury organization have been working in full cooperation with the American Bankers Association, the Savings Bonds Association, the life insurance companies, and others in an educational campaign promoting thrift. And in the sale of United States savings bonds all of the great financial organizations mentioned have been recommending United States savings bonds as the safest investment on earth. They have been engaged in a great educational campaign in which the equivalent of \$40,000,000 worth of free advertising has been made available to the Treasury. The result has been that there are probably more Americans engaged in systematic saving than at any period in our history. So, the calamity howlers in Congress and out who charge that this Government and this country are going socialistic have no facts to base their dire predictions on.

These prophets of doom have no faith in their country. But the American people do have faith in their country, and they have shown it by their investments in Government bonds. The gloomy Jeremiahs scream socialism while the people invest \$101,000,000,000 in expanding free enterprise.

I want to comment on the suggestions that have been made that this tax bill bears down on the needy people of small income. There is not one among us who does not regret to see the tax burden increased upon the low-income fellow, the wage earner, the small-salaried person. But let us take a look at the picture. Turn to page 12 in the committee report and look at that table. You will find some interesting facts. The total number of individual tax returns last year were 44,187,468. Of that total 35,860,757 had gross incomes of less than \$5,000. Again the gross incomes of the individuals reporting amount to \$180,000,000,000. Of that amount \$101,073,000,000 represented the incomes of people earning less than \$5,000. There are so many small wage-earners, and so many small-salaried people that you cannot raise the funds that are needed to finance our Government without taxing those of low incomes.

We have tried to make it as light as possible. We have tried to put it on such a percentage basis that the smallest taxpayer will not be taxed any more in proportion than the biggest taxpayer.

Furthermore, let us not sell the American people short. They are patriotic. All of us will have to make sacrifices. That is true of the small-income taxpayer. I voted against the tax reduction bill of 1948 and at that time I made a speech saying that to defend this Nation and to preserve its liberty we have piled up such a tremendous debt that we owe it to the generations coming after us to continue high taxes and reduce that debt. Let me say to you, my fellow Members, we today must decide what we will do and what sacrifices we will make. The children who come after us are not here to speak. They will not be at the ballot box come next election. They must accept as good Americans, and pay whatever part of this debt we shall elect to pass on to them. Most of these wage-earning people have a family of children to feed and clothe and educate. It is going to be a sacrifice to them to meet this increased tax. But I dare say that to the last patriotic man among them they would prefer to pay out of their wages and salaries, though it be sacrificial, and to be able to say to their children and their grandchildren that we did not shirk our responsibility when we had the chance and sole choice of passing on an unfair part of the burden that we have created for them to pay.

So far as I am concerned, I believe this tax bill represents the smallest amount that we could afford to raise, if we can indulge in the hope that we will continue on a pay-as-you-go basis. Let us hope world conditions will improve; that we can cut down on the enormous expense of war and devote some of our funds to creating more instrumentalities for the creation of wealth. Let us look forward to the day when we can return to peace through the sacrifices we are now making. Personally I have an abiding faith in the soundness of this country and of the American people who have faith in it. They know we went through the terrible trials of the Civil War. They know we have gone through two great world wars, and they know we have come through stronger and better.

Yes, there are those who say we are giving away all the wealth of America to others. They said that after World War I. We do have a marvelous people. There is no nation that has ever done what we have done and fought two world wars, and that has gone out to help even our stricken enemies, to feed and clothe their babies and to reestablish their economies.

Yes; I know we were called Uncle Shylock after World War I when we tried to collect our loans. I know that some of the money we sent over there during the war to help feed the German babies during the war period, the milk we sent to feed them, was turned over to the munition plants, and the tin cans were melted down to make hand grenades to throw back at our boys. But, after all that, this much is true: With all the spending and our efforts after this war, we are trying to build a decent

world in which to live. These vast expenditures, for which this Nation was criticized by many in the past, has been as bread cast upon the water. In spite of all that spending, we, today, stand as a nation which has produced the highest standards of living of any nation in the world. All we need is a little of the faith and courage that our fathers had and to quit whining and face our responsibilities.

Mr. SIMPSON of Pennsylvania. Mr. Chairman, will the gentleman yield?

Mr. COMBS. I yield.

Mr. SIMPSON of Pennsylvania. The gentleman is everlastingly right when he tells us the American people are sound. We all agree to that. Is this tax bill sound, in the gentleman's opinion?

Mr. COMBS. It is as sound as 25 men working 4 months could make it.

Mr. SIMPSON of Pennsylvania. But that does not answer the question.

Mr. COMBS. That is a matter of opinion. It is as sound as we can get it. There are some provisions in it that I do not like. There are some other provisions that I would like to see in it, but I recognize the judgment of the majority of both parties went into this bill, and I am supporting it because it is the best we could produce.

Mr. MILLS. Mr. Chairman, will the gentleman yield?

Mr. COMBS. I yield.

Mr. MILLS. Is it not a fact that the bill before the House is simply a compromise of the views of 25 members of the committee; that no one man on the committee is satisfied with everything in it or satisfied because certain things were left out?

Mr. COMBS. Of course, that is true. That is true of every controversial piece of legislation. That is the way we arrive at legislation in a representative government. Certainly no one man can have his views prevail entirely. This bill is a composite of the best judgment of all.

At Gettysburg, Mr. Lincoln referred to the Civil War as a struggle to determine whether this free Government or any government so conceived and so dedicated could long endure. These immortal words of Lincoln have world-wide application today. This Nation and all free nations are now engaged in another struggle, a struggle not merely of armies but of ideologies, a struggle, the outcome of which may determine for centuries to come whether freemen shall live in peace under free governments of their own choosing. We are going to win this struggle. None of us have any doubt of that. But how quickly we shall accomplish it may be determined, in large measure, by our willingness to sacrifice now. I think the American people understand this vital issue. And although heavy taxes are necessary, the sacrifices we shall have to make to pay them is small indeed compared to the sacrifices made by the youth of our Nation who defend us. Let us have faith in our country, faith in our people, and do our simple duty.

Mr. Chairman, I yield back the remainder of my time.

(Mr. COMBS asked and was given permission to revise and extend his remarks.)

Mr. REED of New York. Mr. Chairman, I yield 25 minutes to the distinguished gentleman from Iowa [Mr. MARTIN].

Mr. MARTIN of Iowa. Mr. Chairman, along with the other members of the Committee on Ways and Means who have preceded me, I want to say I have tremendous admiration for the industry and integrity of every man on that committee; and their devotion to duty has been most amazing, both in endurance and in the quality of their attention to this almost unsolvable problem of tax legislation.

I had the good fortune to serve on the Committee on Military Affairs for 8 years including the period of World War II. The last 4½ years I have been serving as best I can on the Committee on Ways and Means. As I look back over the past 13 years, I have come to the conclusion that service on the Committee on Ways and Means is a battle all the way, both in peacetime and in wartime, because of the nature of our problem. I want to pay particular tribute to the older members on the committee because they have so much more information, so much more background that a youngster serving only in his fifth year on this committee stands necessarily in reverence of their capacity and their ability. I have tried to follow this legislation carefully throughout its entire consideration.

Mr. Chairman, I voted against the bill now under consideration, H. R. 4473, in the Committee on Ways and Means and I intend to vote against it when it comes up for passage. I also intend to vote to recommit the bill to the Committee on Ways and Means on a straight motion to recommit as I understand such motion will be made. I sincerely hope the motion to recommit this bill to the Committee on Ways and Means passes the House of Representatives so that the Committee on Ways and Means can give full consideration to the many points of objection registered in this debate. I have such high regard for the ability of my colleagues on the Committee on Ways and Means that I am sure they are very capable of appraising accurately the value of these points and incorporating them into a revised bill drawn in the light of the hearings and long study of the Committee on Ways and Means and this debate in the Committee of the Whole House.

THE BUDGET

I was stunned by the size of President Truman's budget for 1952 when he delivered it to Congress January 15. His estimated expenditures were \$71,600,000,000, an amount in excess of any previous budget except for the years 1943, 1944, and 1945 when we were running at maximum speed in the closing years of World War II. In addition to the estimated cash expenditures President Truman requested enough new obligational authority to bring his total planned spending for the fiscal year 1952 to the astounding total of \$94,400,000,000 of which amount \$71,600,000,000 is for actual cash expenditures in that year.

President Truman challenged Congress to cut his budget and I have gladly

accepted the challenge because it is only through reduced Federal spending that we can reduce our tax load enough to make it bearable. Experts have figured out that Iowa's share of President Truman's \$71,000,000,000 cash budget is \$1,059,000,000. That is \$407.50 for each man, woman, and child in the State of Iowa, or a total of \$1,630 for the average family of four and that is for 1 year's spending under the direction of President Truman alone. It does not include State and local taxes.

When 1 year's planned spending exceeds the total Federal spending for any 10 successive years added together in the history of our Nation up to the beginning of the fiscal year 1942, there is something seriously wrong with an administration that dares us to cut that administration's spending budget for next year.

FEDERAL TAX REVENUE

The receipts of Federal tax revenues for 1952 were estimated in January by the administration at fifty-five billion one hundred million but this was raised to fifty-eight billion five hundred million by the administration in their estimate presented to the Committee on Ways and Means on April 2 and the staff of the Joint Committee on Internal Revenue Taxation on April 16 estimated these receipts in 1952 at \$60,900,000,000. This estimate of vast revenue is based upon present law and does not take into account any of the \$7,200,000,000 additional revenue covered by the bill now under debate. Sixty-one billion dollars is more Federal revenue than our Nation raised in any 10 successive years prior to the beginning of the fiscal year 1943. It is more than \$13,000,000,000 higher than the staff estimate of April 16 for the fiscal year 1951 which in turn is the highest record for any fiscal year in our entire history even topping the highest year of World War I or World War II.

The additional revenue proposed in this bill, \$7,200,000,000, is alone more than our highest total Federal annual revenue for any fiscal year prior to 1942. We have indeed climbed to dizzy heights in spending and in taxation.

INFLATION

Wasteful and extravagant Federal spending has not stopped with the funds raised by taxation. The Federal public debt is now more than \$260,000,000,000 of which \$238,000,000,000 has been added since President Roosevelt was inaugurated, March 4, 1933. High taxes cannot offset the inflationary impact of such a governmental spending orgy as we have witnessed during the past 20 years. We should level off the ceiling of Federal spending far below the \$71,000,000,000 spending budget of President Truman and adopt a far less drastic tax bill than H. R. 4473 now before us.

INCREASES IN FEDERAL TAX REVENUE PROPOSED IN H. R. 4473

I do not consider this tax bill well balanced, because the proposed increases in individual-income and capital-gains taxes and in corporate-income and capital-gains taxes are far too high. In the field of manufacturers' excise taxes I consider this bill most unfair in singling out a few manufacturers' items to bear

the brunt of the \$447,000,000 additional excise taxes proposed in that field.

I. INDIVIDUAL INCOME TAX

This bill will increase the total amount of individual income taxes by \$2,855,000,000 and this is done by increasing capital-gains and individual income taxes one-eighth or 12½ percent. If enacted into law, this increase in individual income taxes will strike hardest in the lower brackets of income where the pinch of inflation already is hitting the hardest today. On Tuesday of this week I secured from the Bureau of Labor Statistics information that the cost of living increased 9.6 percent between April 15, 1950, and April 15, 1951. Using the base period of 1935-39 as 100 percent, the index on April 15, 1950, stood at 168.5, and on April 15, 1951, it stood at 184.6, and the cost of living is still going up. I understand that this increase in cost of living is an all time record increase in our country for any 1 year.

Starting with the increases imposed by the Revenue Act of 1950 enacted last September and including the proposed increases in this bill, individual income taxpayers will have an increase of \$6,285,000,000 added to their tax burden. That is an increase of 31.4 percent in individual income-tax liability. I know my people will be interested to hear that individual income taxpayers paid less than 20 percent of the total Federal internal revenue in 1939, 1940, and 1941, whereas today they are paying 45.3 percent of the total Federal internal revenue and this bill will add 39.5 percent of the proposed new taxes to the personal income tax load.

II. CORPORATION INCOME TAX

This bill proposes an increase in capital-gains tax by 12½ percent, an increase in corporate normal tax rate of five percentage points and it includes also a reduction of the average earnings credit for excess-profits tax from 85 percent to 75 percent of average base period earnings. These increases, together with the increase in corporate taxes in the Revenue Act of 1950 and the excess-profits tax of 1950, place an additional annual tax load on the corporations of our country of \$8,995,000,000 above the corporate tax load in force and effect 1 year ago. This is an increase of 57.9 percent in corporation income-tax liability over 1 year ago. This additional tax burden confronts our corporations with the alternatives of passing this charge along to the consumers or going broke.

My people will be interested to know that Federal corporate income and excess profits tax collections were 22.4 percent of the total revenue in 1939, 21.6 percent in 1940 and today stand at 28.1 percent with an increase in 1952 to 34.1 percent under present law, and this bill by adding \$2,855,000,000 to the corporate income and excess profits tax will increase that percentage still further as the added corporate tax is 39.6 percent of the total new taxes covered by this bill.

Mr. NICHOLSON. Mr. Chairman, will the gentleman yield?

Mr. MARTIN of Iowa. I yield to the gentleman from Massachusetts.

Mr. NICHOLSON. We would not have to have this tax bill, would we, if we had not sent \$7,000,000,000 to European countries?

Mr. MARTIN of Iowa. I thank the gentleman. I agree with him completely.

III. EXCISE-TAX CHANGES

Excise taxes in 1939 accounted for 31.9 percent of the total Federal tax revenues. In 1940 it accounted for 32.9 percent but in 1951 this percentage had reduced to 17.2 percent and it is estimated that in 1952 under present law the percentage will reduce to 13.2 percent. The new excise taxes proposed in H. R. 4473 in the amount of \$1,252,000,000 compared with other taxes will obviously reduce that percentage still further.

My criticism of the proposed excise-tax changes is directed at the hit-and-miss selection of items to be taxed. Secretary Snyder told our committee when he appeared before us February 5 that—

The excise taxes as a whole apply directly to about 25 percent of total consumer expenditures. The remaining 75 percent of consumer purchases, which are outside of the excise tax base, do not on the whole represent a promising source for additional tax revenues.

Having spent many months with the Committee on Ways and Means in 1950 selecting items for reduction of excise taxes only to have our entire work set aside because of the Korean War, I have witnessed our committee's effort this year to select items for increase of the excise tax imposed. Without criticizing the committee in any way, I must say that there is decidedly an element of luck in the fate of any particular item in such selective procedure. Generally speaking I have devoted my own time and effort to sponsoring excise-tax treatment that I consider most helpful to the production of food and the sinews of war. Occasionally I have taken active part in the debate on other items. One could hardly classify a mechanical pencil or a cheap fountain pen as a war item but I am vigorously opposed to placing a \$24,000,000 manufacturers excise tax on the cheap mechanical pencils and fountain pens so essential to the needs of our school children, rich and poor alike. In my humble opinion, this is about the last field that should be invaded by the excise tax.

By the way, I know each Member of the committee will get the point I am driving at. I call your attention to the opening paragraph of the statement made yesterday by the gentleman from Michigan [Mr. DINGELL] appearing in the debate on page 7068, in which he states unequivocally his stand on excise taxes. I commend his forthright statement of his stand to the limit, and I only hope he is on the committee of conference, because we need a little more help on that committee of conference on this particular provision imposing the tax on fountain pens and mechanical pencils.

Apparently President Truman and Secretary Snyder did not select cheap mechanical pencils and fountain pens for increased excise taxes as no mention was made of them in their messages. The

pen and pencil manufacturing industry were not on notice during the course of the hearings that the Committee on Ways and Means had any notion of including this proposed tax in the 1951 Revenue Act and consequently none of these manufacturers appeared in the committee hearings before the committee. The addition of this tax was clearly a blow in the dark without warning to this industry.

GASOLINE TAX

The proposed increase of one-half cent per gallon in gasoline taxes, thereby raising Federal gasoline tax to 2 cents per gallon is not only a blow to the States that have come to look upon the gasoline tax as their best source of revenue, but it is also a serious blow to transportation. We have literally millions of workers who are dependent upon private transportation to get to and from their jobs. The marginal workers will seriously feel the impact of this additional transportation cost. This impact is a blow especially to the dispersal of industry which I consider of paramount importance in the impending threat of enemy bombing if we should ever go to war with Russia or any other major power.

AUTOMOBILE, AUTOMOTIVE PARTS AND ACCESSORIES, TRUCKS AND BUSES

We were told during the hearings that a new automobile costing \$2,000 today includes \$475 in taxes. This is enough to put new cars out of the reach of many people dependent upon private transportation to and from work. Nevertheless the Committee on Ways and Means has approved an increase in the 7-percent excise tax on new automobiles to 10 percent, and an increase in automotive parts and accessories from 5 percent to 8 percent, and on trucks, truck trailers, and buses from 5 percent to 8 percent. This proposed increase will remove a great many marginal workers from the market for new automobiles. The Treasury staff argued during the hearings that there is still an adequate market for every new car, but they did not attempt to prove that point and they could not refute my charge that the removal of marginal workers from the car market will have a serious effect upon the ability of these marginal workers to get to and from their jobs at the very time many of these workers are most needed in our defense plants, and dispersal of industry should be encouraged.

The total additional new revenue from the proposed increase in these taxes and the gas tax is estimated at \$533,000,000, and that additional charge can produce real hardship on badly needed private transportation.

Mr. PATTERSON. Mr. Chairman, will the gentleman yield?

Mr. MARTIN of Iowa. I yield to the gentleman from Connecticut.

Mr. PATTERSON. On this dispersal of industry I would like to get the gentleman's idea.

Mr. MARTIN of Iowa. I have very fixed ideas on the need for such dispersal after studying the matter for 13 years. All you have to do is to concentrate industry in a small spot and then let the

bombers of an enemy come over and see what happens.

Mr. PATTERSON. The gentleman is not recommending that, say, the great industrial area on the east coast should be all dismantled and moved at this time?

Mr. MARTIN of Iowa. No; just enough of it to keep us alive in case we are bombed.

Mr. PATTERSON. For instance, what part of the East would the gentleman want to see moved?

Mr. MARTIN of Iowa. I have not pinpointed my policy. I will say this much, that if you want to make yourself a perfect target, leave yourself highly concentrated. This has been a 13-year study of mine.

IV. PROPOSED STRUCTURAL CHANGES IN INTERNAL REVENUE LAW—DEVELOPMENT EXPENDITURES OF MINES

The Committee on Ways and Means approved an amendment to the internal revenue law to treat expenditures incurred in the development of mines, after discovery of commercial quantities, as deferred expenses deductible ratably over the period the mineral benefited is sold. I vigorously approved this action because it will go far to encourage development of our domestic mining industry. I feel, however, that it is highly important to extend similar treatment to prospecting and exploration costs. It is, indeed, my sincere hope that the Senate Committee on Finance will give favorable consideration to this extension.

In my opinion, there is real need for encouragement of prospecting, exploration, and development of war essential metals and minerals. The self-sufficiency of our Nation for defense is more dependent upon the encouragement and expansion of our domestic mining industry and the preservation of its productive strength than on any other single factor.

Rules followed by the Bureau of Internal Revenue make it very uncertain whether these items can be classed as expenditures for tax credit and consequently exploration and development of minerals in the United States has lagged so seriously as to weaken our defense self-sufficiency alarmingly.

Our Federal tax revenues from this source might even increase by encouragement extended by such amendment.

Mr. JOHNSON. Mr. Chairman, will the gentleman yield?

Mr. MARTIN of Iowa. I yield to the gentleman from California.

Mr. JOHNSON. The gentleman will remember that he and I were on a subcommittee to draft the strategic stockpiling bill we now have, and which was passed in 1946, 1 year after the shooting war terminated. I want the record to show that I believe the gentleman from Iowa is the best informed man in the entire Congress on the problem of strategic stockpiling. His interest started in 1939 and has been continued unabated to this present moment. He is recognized by the mining men of America as the one man in Congress who understands the need for the development of the metal industry, especially the need for it today when we are building up our defense force. The need for the stock-

piling of critical material is now imperative and the gentleman from Iowa is giving intelligent and effective leadership to that effort because of his grasp of the problem.

Mr. MARTIN of Iowa. I appreciate the gentleman's comment. I will add this, that the Committee on Armed Services is still giving very good consideration to this field, and I am proud of the work the Committee on Armed Services is doing and also the work of the Appropriations Committee in that field. I am very proud of the work done in that field by Congress. As a member of the Committee on Armed Services, the gentleman from California has had a very real part in this good work and I commend him very highly.

Mr. MILLS. Mr. Chairman, will the gentleman yield?

Mr. MARTIN of Iowa. I yield to the gentleman from Arkansas.

Mr. MILLS. In line with the statement of my friend from California, may I say that the gentleman's experience of 8 years on the House Committee on Armed Services has been invaluable to me as a member of the Committee on Ways and Means since he has been on that committee, because he has been very active in matters dealing with minerals, strategic and critical. It has been a source of great comfort to me to have him on the Committee on Ways and Means.

Mr. MARTIN of Iowa. I thank the gentleman, indeed. The gentleman from Arkansas has been most helpful to me on the Committee on Ways and Means. I appreciate his helpful cooperation in this particular field very much.

CAPITAL GAINS TAX FOR LIVESTOCK

H. R. 4473 extends capital gain treatment to livestock held by taxpayers for draft, breeding, or dairy purposes for 12 months or more. I supported this provision vigorously and I call attention of the House to the unusual feature of identical wording in the majority report and the minority report on this point as follows—see page 32 and page 152 of the committee and minority reports:

The term "livestock" should be given a broad, rather than a narrow, interpretation; and the gains should be computed in accordance with the method of livestock accounting used by the taxpayer and presently recognized by the Bureau of Internal Revenue.

I should call attention of the House to the fact that the word "definition" in the minority report should have read "interpretation."

WITHHOLDING ON DIVIDENDS, ROYALTIES, AND CERTAIN PAYMENTS OF INTEREST TO INDIVIDUALS

I voted against the withholding provision of this bill. It is undoubtedly true as reported by the staffs of the Treasury and the Joint Committee on Internal Revenue Taxation to the Committee on Ways and Means in April that \$1,120,000,000 in dividends will be unaccounted for on tax returns in 1951 and interest of all kinds will be unaccounted for in 1951 in the amount of \$1,930,000,000. I have no way of knowing how much of these items can be brought to account by other

means but I know this that the Federal Government cannot honorably punish people who owe no tax in order to catch those who are guilty of tax evasion. Yet that is exactly what the Government proposes to do in this amendment.

The staff of the Joint Committee on Internal Revenue Taxation have told me that 2,200,000 cases of such withholding will be entitled to such reimbursement of taxes withheld by the Government but not owing by these people to the Government. Many of these people will have their funds taken over by the Government without their knowledge of their entitlement to reimbursement or because of their reluctance to undertake the tedious procedure of recovery. The amount of money that will be thus improperly taken by the Government each year has been estimated by the staff at \$250,000,000 which indicates the average sum per person will be in the neighborhood of \$100. Even to those who claim their refund at the earliest date available to them, this high-handed seizure by the Government will deprive them of the use of their funds from year to year.

In closing, I will read a letter I have received from one of my constituents living at Davenport, Iowa. This letter was written to me on June 9, 1951, as follows:

MY DEAR CONGRESSMAN MARTIN: I note from the press that there is a likelihood of a 20 percent withholding tax at the source on dividends.

My entire income is from dividends, and last year it amounted to \$2,700. I have no other income.

I will be 81 years of age my next birthday, my wife will be 79 years. Just how can we stand such a deduction? Must we old people, who have helped to carry the burden all these years, be penalized in this way, now, when our need is greatest, and we have no earning power?

I would be pleased to hear from you.

Just what reply do you think I can make in defense of such indefensible procedure.

CONCLUSION

These objections and other important objections discussed here by Members of the House of Representatives justify recommitment of this bill to the Committee on Ways and Means for their further consideration. I strongly recommend and urge recommitment in the hope that the Committee on Ways and Means will bring this bill back with these objectionable points removed.

Mr. REED of New York. Mr. Chairman, I yield to the gentleman from Oregon [Mr. ANGELL] for a unanimous-consent request.

Mr. ANGELL. Mr. Chairman, I ask unanimous consent to extend my remarks at this point in the RECORD.

The CHAIRMAN. Is there objection to the request of the gentleman from Oregon?

There was no objection.

SGT. LOREN R. KAUFMAN, OREGON INFANTRYMAN, AWARDED MEDAL OF HONOR POSTHUMOUSLY

Mr. ANGELL. Mr. Chairman, I was glad to have the opportunity to participate in the ceremony yesterday at the Pentagon when the chairman of the Joint Chiefs of Staff, Gen. Omar N.

Bradley, awarded a Congressional Medal of Honor posthumously to Sgt. (1c) Loren R. Kaufman, an infantryman from The Dalles, Oreg. His father, Mr. D. A. Kaufman, a resident of Portland, Oreg., in my congressional district, accepted the award. I am advised this is the seventh Congressional Medal of Honor awarded to Oregonians for heroism in the Korean conflict, and the twentieth to be presented since the Korean War started.

Sergeant Kaufman was born at The Dalles, July 27, 1923, and was a veteran of 9 years Army service. He first enlisted December 13, 1941, served in North Africa and Europe and with the Third Infantry Division for 3 years and during a subsequent enlistment served in Germany and Trieste. He accompanied the second division to Korea from Fort Lewis, Wash., last July. He won the bronze star medal for heroism in World War II and was decorated with the oak leaf cluster to that medal for valor in Korea last August. He also received the combat infantryman's badge.

The release by the Department of Defense on this award is as follows:

OREGON INFANTRY SERGEANT AWARDED MEDAL OF HONOR POSTHUMOUSLY

The Medal of Honor has been awarded posthumously to Sgt. (1c) Loren R. Kaufman, an Army infantryman from The Dalles, Oreg., whose single-handed bayonet charges and inspiring leadership demoralized the enemy and enabled his unit to accomplish its mission, the Department of the Army announced today.

Sergeant Kaufman, 27, survived his heroic exploits on September 4 and 5, 1950, which won the Nation's highest military honor, but was killed in action on February 10, 1951.

Gen. Omar N. Bradley, Chairman of the Joint Chiefs of Staff, will present the twentieth Medal of Honor announced by the Army for heroism in Korea to Sergeant Kaufman's father, D. A. Kaufman, 529 Southeast Grand Avenue, Portland, Oreg., in a ceremony at the Pentagon on June 21, at 11 a. m. eastern daylight savings time.

Also attending the ceremony will be Sergeant Kaufman's sister, Mrs. Ila May Hensle, 7227 South Vincennes Avenue, Chicago, Ill., and three brothers, all in the Armed Forces. They are Sgt. (1c) Fred R. Kaufman, Fort Lewis, Wash.; Carpenter's Mate (2c) Kenneth V. Kaufman, Amphibious Construction Battalion No. 1, Coronado, Calif.; and Seaman Apprentice Alan W. Kaufman, serving with United States Naval Cargo Handling Battalion No. 2 in the Pacific area.

Sergeant Kaufman, a member of Company G, Ninth Infantry Regiment, Second Infantry Division, observed a column of men in the dark as his unit was moving to new positions. Discovering they were enemy, he bayoneted the lead scout and assaulted the remainder with rifle and grenades causing them to retreat in confusion.

Later, while his company was pinned down by enemy fire, Kaufman single-handedly charged the enemy lines. He bayoneted two enemy, seized an unmanned machine gun, and poured deadly fire into the enemy ranks.

When his company resumed the assault Kaufman led the attack destroying a hostile machine gun, and routing the enemy. Pursuing the fleeing enemy troops, he bayoneted two of them and then rushed a mortar position, killing the gunners. He concluded his saga of heroism by leading a patrol into a village occupied by the fleeing enemy, dispersing them and burning the buildings.

A graphic description of the action which won the Medal of Honor for Sergeant Kaufman is given in an eyewitness account by two of his comrades, Sgt. (1c) Richard P. Switala, of 1514 South Monroe Street, Bay City, Mich., and Sgt. Leonard N. Miller, of Conowingo, Md.:

"Sergeant Kaufman was with us on the night of September 4, 1950, near Yongsan, Korea, when we received orders to pull back from the second platoon into a new position on the right of them.

"Early in the morning of the following day we heard an awful lot of firing going on in the vicinity of where the second platoon was still located. Our platoon leader gave us the order to return to the platoon area to give them assistance.

"On our way back we observed a large group of men coming up a draw in the same direction we were heading. Not knowing whether they were friendly or enemy troops, due to it not being light enough to see at the time, Kaufman went forward to investigate. He walked up to the lead man in the group and upon discovering that the leader was a North Korean, hit him over the head with the butt of his rifle and bayoneted him. He then raced back to where we were standing, giving the alarm as he ran that they were North Koreans.

"We hit the dirt then, while Sergeant Kaufman was still firing from a standing position, and started throwing grenades into the group of enemy. After a while we worked our way back to where the second platoon was. Kaufman was the last man to fall back, covering us all the time with very effective fire.

"As the Koreans tried to advance, he would raise up in a standing position in order to get a better look at where they were trying to break through and then would start throwing grenades and firing his rifle. During this action there was a lot of crossfire, and at times it seemed that he would surely get hit, if not by the enemy by the friendly troops that were firing back.

"When we arrived Sergeant Kaufman found a few of the second platoon's men had moved back because of lack of ammunition. He immediately started giving encouragement to the men by running back and forth all along the top of the hill firing his rifle and throwing grenades. When a fellow got hit, he stopped long enough to tell him that everything would be O. K., and then grabbed the fellow's rifle and started firing back at the enemy.

"During all this time he was completely exposed to enemy fire, and at one time had bayoneted two Koreans who had worked their way almost to the top of the hill. He then moved along the position to where a machine gun was set up and started firing it. When he realized that the fellows who were originally manning the machine gun, had been hit and were under fire by the enemy who were trying to knock the machine gun out, he picked it up by himself and moved to a new position so as not to draw fire on the wounded men.

"Later we jumped off on an attack, with the second platoon hitting the hill on the right and our platoon on the left side. We got half way up the hill, but discovered we were under heavy fire without hardly anywhere at all to take cover. Sergeant Kaufman moved up the hill as far as he could and began throwing grenades as fast and in as many directions as he could, trying to knock out the enemy positions in order for his platoon to advance.

"I saw him kill quite a few enemy in close-in hand-to-hand combat, using his bayonet on them. After bayoneting two North Koreans, he then ran over to a mortar position where there were three Koreans and opened up on them with his rifle, killing all three. The Koreans that were left on the

hill took off for the village just below the hill.

"We stayed on top of the hill until the second platoon moved up, and then we moved out with Sergeant Kaufman leading us down to the village and began searching and firing into the village until the remaining enemy were killed or dispersed."

Sergeant Kaufman was born on July 27, 1923, at The Dalles, Oreg. He was a veteran of 9 years' Army service. After enlisting in the Army on December 13, 1941, he served in north Africa and Europe with the Third Infantry Division for 3 years. He was awarded the Bronze Star Medal for his service in World War II.

During a subsequent enlistment he again served in Germany and Trieste. He accompanied the Second Infantry Division when it left the United States for Korea last July. He won an Oak Leaf Cluster to his Bronze Star Medal for valor in action against the enemy last August, and also the Combat Infantryman Badge.

The Medal of Honor citation follows:

"Sergeant Kaufman, Company G, Ninth Infantry Regiment, distinguished himself by conspicuous gallantry and intrepidity above and beyond the call of duty in action on September 4 and 5, 1950, near Yongsan, Korea. On the night of September 4 the company was in a defensive position on two adjoining hills. His platoon was occupying a strong point 2 miles away protecting the battalion flank. Early on September 5 the company was attacked by an enemy battalion and his platoon was ordered to reinforce the company. As his unit moved along a ridge it encountered a hostile encircling force. Sergeant Kaufman, running forward, bayoneted the lead scout and engaged the column in a rifle and grenade assault. His quick vicious attack so surprised the enemy that they retreated in confusion. When his platoon joined the company he discovered that the enemy had taken commanding ground and pinned the company down in a draw. Without hesitation Sergeant Kaufman charged the enemy lines firing his rifle and throwing grenades. During the action, he bayoneted two enemy and seizing an unmanned machine gun, delivered deadly fire on the defenders. Following this encounter the company regrouped and resumed the attack. Leading the assault he reached the ridge, destroyed a hostile machine gun position and routed the remaining enemy. Pursuing the hostile troops he bayoneted two more and then rushed a mortar position shooting the gunners. Remnants of the enemy fled to a village and Sergeant Kaufman led a patrol into the town, dispersed them and burned the buildings. The dauntless courage and resolute intrepid leadership of Sergeant Kaufman were directly responsible for the success of his company in regaining its positions, reflecting distinct credit upon himself and upholding the esteemed traditions of the military service."

An interesting discussion of this award and the significance of it appeared in the Oregonian in its issue of Sunday, June 15, 1951, which I include in these remarks:

KAUFMAN SEVENTH OREGONIAN WINNING MEDAL OF HONOR

In earning a Congressional Medal of Honor for heroism in Korea, Sgt. (1c) Loren R. Kaufman, The Dalles, joins a select company of Oregonians and Americans.

Only six Oregonians have received Medals of Honor in previous wars. Kaufman, killed in action after his heroic encounter with the enemy, is the first Oregonian to get the Nation's highest military decoration in the Korean War.

His father, D. A. Kaufman, 529 Southeast Grand Avenue, will fly to Washington, D. C., to receive the Medal of Honor for his son

from Gen. Omar N. Bradley, Chairman of the Joint Chiefs of Staff.

The Medal of Honor long has been coveted as the Nation's ultimate honor to its military heroes. Few of the heroes have survived the engagement cited to accept the medals personally.

The medal itself is a five-pointed star, surrounded by a laurel wreath, suspended from a bronze star bearing the inscription, "Valor," and surmounted by an eagle. In the center of the star is the head of Minerva, encircled by the inscription, "United States of America." On the reverse of the medal are engraved the name, grade, and organization of the recipient, with the place and date of the act for which the award was granted. The ribbon is light blue, with 13 stars.

The Medal of Honor was originated by act of Congress in 1862, when feeling arose in Government circles that some inviolate and sacred award should be tendered those who risked all for their country.

SPECIAL PRIVILEGES GRANTED

It is won only by a deed of personal bravery or self-sacrifice, above and beyond the call of duty. Army regulations in awarding the medal permit no margin of error.

The deed of the recipient must be proved by at least two eyewitnesses; it must be so outstanding that it distinguishes his gallantry beyond the call of duty from lesser forms of bravery; it must involve the risk of his life; and it must be the type of deed which, if he had not done it, would not subject him to any justified criticism.

Winners of the medal are entitled to certain privileges, such as a special pension of \$120 a year after reaching 65, increased military pay of \$2 a month, and under certain conditions, free Army airplane transportation.

Through World War II, 2,116 Americans had won Medals of Honor. More than half of the medals were awarded during the Civil War. Congress awarded 292 Medals of Honor for heroic deeds during World War II, almost 200 more than were tendered during World War I.

Oregonians awarded the medal before Sergeant Kaufman:

Pfc. Stuart S. Stryker, Portland, Seventeenth Airborne Division, World War II; Second Lt. David R. Kingsley, Portland, Ploesti, Rumania, air sortie during World War II; Capt. Edward C. Allworth, World War I; Marcus W. Robertson, and Charles E. Kilbourne, Philippine Insurrection; and Lewis Phife, Indian wars.

Mr. REED of New York. Mr. Chairman, I yield to the gentleman from California [Mr. JOHNSON].

(Mr. JOHNSON asked and was given permission to extend his remarks at this point in the RECORD.)

[Mr. JOHNSON addressed the Committee. His remarks will appear hereafter in the Appendix.]

Mr. DOUGHTON. Mr. Chairman, I yield 15 minutes to the gentleman from Rhode Island [Mr. FORAND].

(Mr. FORAND asked and was given permission to revise and extend his remarks.)

Mr. FORAND. Mr. Chairman, all day yesterday and since 11 o'clock this morning, we have listened to our Republican friends use high-sounding words, scare words of every type, with reference to the bill now under consideration. I want to remind my colleagues that they, like myself, every election day go before the public to seek the great honor of being a Member of the Congress, and I point out that with that honor goes a

grave responsibility, the responsibility not just of voting to get votes, not just voting on what we think will please the people, but the responsibility of voting as our conscience dictates, and voting for the general welfare of our Government in general, because by so doing we are voting for the general welfare of all the people. Scare words have been used. In fact, I believe every scare word in the dictionary has been used. They may attract attention. Yes. They may attract a few votes. I hope that the results will not disturb your sleep in the future.

Mr. Chairman, as was said before, the bill before us is not fully satisfactory to each and every Member. In fact, if each of us had the privilege of writing a tax bill, I am sure it would be different, but it is a compromise of the views of 25 Members, all honest, sincere men, trying to do a job. I believe, as was said by previous speakers, that it is perhaps the best tax bill that could be written at this time.

As was said by my good friend Randolph Paul, who at one time was general counsel for the Treasury, no law can do absolute justice all along the line in an economy of shifting dollar purchasing power, but the impossibility of doing absolute justice is not a valid reason for failing to do justice that can be done. A perfectionist is a dangerous man in the tax world, which is full of things that need to be done only as well as they can be done.

Mr. Chairman, that represents the tax bill we have brought before you. It is the best that can be done under present circumstances. I sincerely hope and trust that the membership of this House will have enough confidence in the Ways and Means Committee to give us their full support when the final vote comes.

Much has been said about the so-called bad features of the bill, but nothing at all has been said so far as to the relief provisions contained in that bill.

Mr. Chairman, although the bill, H. R. 4473, which is now before us, is largely a revenue-raising measure, it contains one very important relief provision which is necessary during times like these.

I invite your attention to section 303 on page 76 of the bill. That section amends the present provisions of the law relating to gains on the sale of a taxpayer's principal residence. It defers the capital gains tax when another residence is purchased during the same year. While this provision involves a revenue loss, it is necessary to alleviate the hardship involved in transfers of residences, especially when individuals move from one city to another in the process of changing to a defense job.

The capital gains provisions of the Internal Revenue Code are designed to include in the tax base profits from the sale of capital assets. The major source of such profits is, of course, gains from the sale of stocks and bonds. However, a personal residence is also considered a capital asset, and properly so, and as a consequence, gains from the sale of residences are subject to the capital gains provisions.

It is evident, however, that for the most part, the sale of a personal resi-

dence especially when it precedes the purchase of another residence is entirely different from the sale of stocks and bonds. Most individuals move into new homes because their jobs change or because their requirements for housing change as the family grows, or as the children marry. Gains resulting from switches of personal residences are therefore not in the same category as gains from the sale of other capital assets since they are ordinarily not obtained as a result of a desire to make profit in the usual sense of the word.

Perhaps more important, many changes of personal residences are in the nature of involuntary switches. A person, for example, may live in New York for a long time and then because of expansion of the defense program may find a new job in Cleveland. The sale of his home in New York does not enrich him if he buys a home of comparable size in Cleveland. The imposition of a capital gains tax in such cases reduces the amount of money which is available to the individual to purchase a new home.

The hardships involved in such instances have been the subject of considerable complaint, I am certain, to practically every Member of the Congress. Especially during World War II when labor mobility was unusually great, wage earners protested that the capital-gains tax imposed considerable hardships on them. Labor mobility is again on the increase as a result of the defense program and we must guard against imposing tax hardships under these circumstances.

We pride ourselves on the fact that our tax system is progressive and is based to a very great extent on ability to pay. The average man on the street does not consider the temporary gain on the sale of a personal residence before another is purchased as indicating ability to pay. By reducing his capital resources, the capital-gains tax, in fact, makes it harder for him to maintain his former standard of living. Relief from this condition is long overdue.

Mr. Randolph E. Paul, former general counsel of the Treasury Department, in his book *Taxation for Prosperity* makes a very pertinent observation on this subject. I quote a brief excerpt from that book:

No tax law can do absolute justice all along the line in an economy of shifting dollar purchasing power.

The impossibility of doing absolute justice is not a valid reason for failing to do justice that can be done. A perfectionist is a dangerous man in the tax world, which is full of things that need to be done only as well as they can be done. But one problem recurs too frequently to be neglected any longer. It can be illustrated by a simple case history.

In 1915 Mr. Smith came to Washington to work for the Government. He bought a house for \$5,000. In 1945, after he had devoted 30 years to Government service, he was ordered to Chicago. He sold his house for \$15,000 and moved his family. Plainly he had a capital gain of \$10,000. But Mr. Smith was spoiled; he liked to own his home; moreover, in Chicago he could find no apartment at a reasonable rental. So he bought another house. It was no better than the one he had sold in Washington, but it cost

him \$15,000, exactly the amount he had received for his Washington house. The amount he had received, yes. But not the amount he had left in his pocket. The Government had part of the first \$15,000, and Mr. Smith had to dip into his savings to pay for the second house.

Mr. Smith's tax lawyer told him that he had no recourse. But if Mr. Smith had been in business and his house had been a ship which was requisitioned by the Government for \$15,000, the advice would have been different. Then he would have had an involuntary conversion, and he could have established a fund with the first \$15,000 to replace the ship. Then he would have had no taxable gain, and the \$15,000 would have been in his pocket and available to buy the second ship. In practical fact, although not technically under the law, Mr. Smith had an involuntary conversion. He had no choice but to go to Chicago. It is hard to see why he should not enjoy the financial position in Chicago that he had in Washington.

There are thousands of Mr. Smiths in Government and in business. Never were business conditions so chaotic as today, and the geographical shifting of personnel required both by business and Government did not end with the war. If Mr. Smith were politically minded, he could make a strong case for tax relief. But he is just an ordinary citizen, so he takes his medicine. It can be added that the income tax is not popular in that house in Chicago. Mr. Smith might pay his other taxes more willingly if he thought he had been fairly treated.

Mr. SIMPSON of Pennsylvania. Mr. Chairman, will the gentleman yield?

Mr. FORAND. I yield.

Mr. SIMPSON of Pennsylvania. I want to compliment the gentleman on this portion of the bill. My recollection is that the gentleman has urged the adoption of this proposal for some years.

Mr. FORAND. The gentleman is correct.

Mr. SIMPSON of Pennsylvania. The fact is that the individual who allegedly benefits as a result of this change in the law has no profit to himself anyway, because when he gets a selling price for his own home he must immediately put that money in another home, and he gets nothing aside from credit in the new home for that which he had in the old; is not that correct?

Mr. FORAND. The gentleman is absolutely correct; and I want to take advantage of this particular moment to pay a tribute to the gentleman from Pennsylvania, because he, too, has been working with me on this very important subject. As I go along it is my hope to cite a few examples to make clear just where the taxpayer stands when he changes his residence.

Mr. MILLS. Mr. Chairman, will the gentleman yield?

Mr. FORAND. I yield to the gentleman from Arkansas.

Mr. MILLS. I want to join with the gentleman from Pennsylvania in commending the gentleman from Rhode Island for this provision. The gentleman from Rhode Island called it to the attention of the committee, made the motion in the committee that resulted in this provision being included in the bill. This is further evidence of the gentleman's constant study of our tax statutes in the hope of bringing greater equity to the people of the United States.

Mr. FORAND. I thank my friend from Arkansas.

Another important consideration which led the committee to decide to defer the capital-gains tax in these situations is that, primarily for administrative reasons, capital losses on the sale of homes are not deductible in arriving at net income. Thus, if an individual switches homes in 1950, and makes a gain on the sale of his original house, he would be taxed on that gain under present law. If he made another switch in 1955 and takes a loss at that time, that loss would not be deductible. In effect, therefore, even though the individual may suffer a loss in capital over the period of 5 years, he is subject to tax on the original gain. In connection with the capital-gains provisions on the sales of other capital assets, an individual is permitted to deduct capital losses either against capital gains or against ordinary incomes.

The purpose of section 303 of the bill is to eliminate these anomalies in the tax law. The specific provisions are as follows:

First. When the sale of the taxpayer's principal residence is followed within the period of 1 year by the purchase of a substitute, gain will be recognized for tax purposes only to the extent that the selling price of the old residence exceeds the price of the new one. This rule applies also when the substitute is purchased within a year prior to the sale of the taxpayer's principal residence. Thus, if a dwelling purchased in 1940 at \$10,000 is sold in 1951 for \$15,000, there would be a taxable gain of \$5,000 under existing law. Under this bill no portion of the gain would be taxable provided a substitute "principal residence" is purchased by the taxpayer within the stated period of time for a price of \$15,000 or more. If the replacement cost is less than \$15,000, say \$14,000, the amount taxable as gain would be \$1,000.

Second. This special treatment is not limited only to cases where the switch of a personal residence is in the nature of an involuntary conversion. While the need for relief is especially clear where the taxpayer is forced to sell his home because his place of employment is changed, an attempt to confine the provision to such cases would conflict with the fact that relief is desirable whenever the sale of one home is accompanied by the purchase of another.

Third. The adjusted basis of the new residence is reduced by the amount of the gain not recognized by the sale of the old residence. In this way the capital gains tax is not completely forgiven, but rather is deferred until the time when the gain is fully realized. For example, if the replacement home is purchased for \$19,000, the old residence cost \$10,000 and was sold for \$15,000, the adjusted basis of the new residence would be \$19,000 minus \$5,000, or \$14,000. This is equal to the cost of the old residence and the additional funds invested at the time the new residence is purchased. If the individual later sells this house for \$20,000 and does not purchase another one within a year, he will be taxable on the difference between \$20,000 and

\$14,000, or \$6,000. In total, the individual made a gain of \$6,000 on the sales of the two houses—\$5,000 on the first and \$1,000 on the second—and this is the total amount of gain upon which he will be taxable.

Fourth. The relief provisions of this bill are applicable whether an individual purchases an existing home or builds a new one so long as he sells another house within a year of the new purchase.

Fifth. The bill covers not only sales for cash but also direct exchanges of one house for another. Moreover, it covers cases where a new home is purchased with insurance proceeds when the old home is destroyed by fire.

Sixth. To prevent abuse of the provision, the bill provides that the special treatment can be availed of only with respect to one sale or exchange per year except when the taxpayer's new residence is involuntarily converted. In such cases he will be treated as though a year had elapsed since the time of a previous sale of an old residence.

Seventh. Where the taxpayer's residence is part of a property also used for business purposes—as in the case of an apartment over a store building or a home on a farm—and the entire property is sold, the provisions of the bill will apply only to that part of the property used as a residence.

Eighth. The relief provided under the bill will be applied to the sales of residences made after December 31, 1950.

The beneficiaries of these provisions will be the average home owner in the United States. Lest it be argued that this legislation is likely to benefit a relatively small and undeserving group in the population, I should like to introduce in the RECORD two small tables which show the nature of home ownership.

Table 1 shows the number of nonfarm houses purchased in the United States in the period 1947–50 and the average cost of these purchases for the years 1947, 1948, and 1949. In 1947, 2,200,000 nonfarm purchases were made at an average cost of \$7,100. In 1948 2,400,000 homes were purchased at an average cost of \$9,000. In 1949, 1,600,000 homes were purchased at an average cost of \$7,040. In 1950 we know only that about 2,500,000 homes were purchased, but we do not know exactly what the average cost was. Nevertheless, it is obvious from the preceding figures that the average cost is still less than \$10,000 per home. These figures, it seems to me, amply illustrate that the beneficiaries of section 303 of the bill will be relatively low-income recipients.

This is made clear by the figures shown on table 2. This table gives the percentage distribution of the purchasers of nonfarm homes by income classes. I should like to read some of these figures because I believe they are not generally known. In 1949, 27 percent of all purchases of nonfarm houses in the United States were made by spending units with incomes under \$3,000. Another 28 percent of those who purchased homes in that year had incomes between \$3,000 and \$4,000. Another 16 percent had incomes between \$4,000 and \$5,000. In total, 71 percent of all purchases of

homes in 1949 were made by people with incomes below \$5,000. The data for 1947 and 1948 generally show a somewhat rising trend in the proportion of purchases made by the groups above \$5,000. It is clear nevertheless that the vast majority of those who purchase homes are in the lower income groups.

In summary, I believe that section 303 of the bill will make an important improvement in our tax laws. It is justified on the following grounds:

First, people who switch from one home to another do not ordinarily do so for reasons of profit making. It is usually incidental to changes in employment or to changes in the housing needs of the family. Payment of a capital-gains tax when an individual switches homes may be a real hardship, because ordinarily he needs as much cash as he can lay his hands on. In an inflationary situation, switching homes does not produce a capital gain which indicates ability to pay.

Second, capital losses on personal residences are not deductible and consequently the imposition of a tax on the capital gains from such sales may actually be a tax on capital rather than a tax on income.

Third, the provision will be helpful to all groups in the population, especially those with low incomes who constitute the majority of those purchasing homes in the United States.

The revenue loss of this provision is \$112,000,000 but I believe it is well worth it.

TABLE 1.—Number of nonfarm houses purchased in the United States and their average expenditures, 1947–50

(Number of houses in millions)				
	New houses	Existing houses	Total	Average expenditures
1947-----	0.6	1.6	2.2	\$7,100
1948-----	.8	1.6	2.4	9,000
1949-----	1.0	.6	1.6	7,040
1950-----	(1)	(1)	2.5	(2)

¹ Not available.

² Estimated.

Source: Survey of Consumer Finances, Federal Reserve Board.

TABLE 2.—Income groups of purchasers of nonfarm houses, 1947–49

Income group	1947	1948	1949
	Percent	Percent	Percent
Under \$1,000-----	4	5	4
\$1,000 to \$2,000-----	13	6	8
\$2,000 to \$3,000-----	22	21	15
\$3,000 to \$4,000-----	24	25	28
\$4,000 to \$5,000-----	19	18	16
\$5,000 and over-----	18	25	29
Total-----	100	100	100

Source: Survey of Consumer Finances, Federal Reserve Board.

Mr. MILLS. Mr. Chairman, will the gentleman yield?

Mr. FORAND. I yield to the gentleman from Arkansas.

Mr. MILLS. Would the gentleman advise the Members of the House what he thinks might happen if the bill were recommitted to our committee, as we understand an effort may be made to do?

Mr. FORAND. Well, I should be glad to give my own personal opinion. As I pointed out earlier, we had a responsibility as Members of Congress. There were many things in the bill that did not appeal to us, perhaps, all the way along the line, but there are certain portions in this bill that I am certain everybody can go along with, and if the bill is referred back to the committee, unless someone is able to give us some concrete way of doing a better job than we have done, I do not know what will happen. I do not know how we can do a better job unless there is a great change in the minds of some people.

Mr. DOUGHTON. Mr. Chairman, will the gentleman yield?

Mr. FORAND. I am glad to yield to the gentleman from North Carolina, the chairman of our committee.

Mr. DOUGHTON. The gentleman is a diligent and earnest member of our committee. He attends sessions regularly and he has rendered outstanding service. With the gentleman's familiarity with our situation, can he think of any source not contained in this bill from which we could get any considerable or substantial amount of additional revenue on which we would be likely to obtain a majority vote to report out a bill?

Mr. FORAND. Mr. Chairman, I am sorry to say that I do not know of any source that we could consider other than the many sources that we have already considered in the committee. All the members of the committee realize that we have had a list of suggestions as long as your arm offered to us by the special tax study group of the Treasury and the members of the staff of the Joint Committee on Internal Revenue Taxation, both groups having been busy for a number of months seeking sources of revenue. When we went through that list there was objection to this item and objection to that item so that we could not get a majority vote on many items that some of us felt should carry a tax. That is the reason why I said a moment ago, that unless there is a change of heart I see absolutely no good that will come from referring this bill back to the committee. It may well result in killing the bill, and if the bill is to be killed, let the responsibility lie upon those who vote to kill it.

Mr. MILLS. Mr. Chairman, if the gentleman will yield further, does the gentleman know of any source that can now be taxed if the Congress does not want the individual income tax raised or the tax burdens of corporations raised, except to impose some form of national sales tax either at manufacturers', wholesale, or retail levels? Certainly the House, if we brought out such a proposition, would not permit it to pass.

Mr. FORAND. I would vote against it. Mr. MILLS. Certainly the gentleman would.

Mr. FORAND. Because I have always been opposed to a sales tax, and I swallowed a few of the items in this bill, not because I wanted to, but because I realized it is our responsibility to raise much-needed revenue. Practically every one of the 200 or so witnesses who appeared before our committee during the

course of the hearings pointed out the urgent need for tax increases. They all argued: "Yes; we need more taxes but," in effect, they said, "do not tax me." We are having a very good repetition of that performance right here on the floor now.

Mr. MILLS. Is it not a fact that if we do not increase individual income taxes and taxes on corporations there is no other way that would be satisfactory of raising anything like \$7,000,000,000?

Mr. FORAND. That is the recommendation, as I understand, of the United States Chamber of Commerce and the National Association of Manufacturers.

Mr. MILLS. The gentleman misunderstands me. There is no other way of raising \$7,000,000,000 that would be satisfactory to this House except to raise a large percentage of that amount from individuals and corporations.

Mr. FORAND. I am sorry. I had misunderstood the gentleman from Arkansas. That is absolutely true, because if you tried any other way it would not be acceptable to anyone.

Mr. DOUGHTON. Mr. Chairman, will the gentleman yield?

Mr. FORAND. I yield to the gentleman from North Carolina.

Mr. DOUGHTON. With respect to the suggestion that has been made about a general sales tax, either a retail sales tax or a manufacturers' sales tax, I believe that in our hearings there were a few witnesses who recommended the imposition of a general sales tax, but may I ask the gentleman if in our committee that was ever seriously considered, or if any member of the committee, as far as the gentleman knows, earnestly recommended a general sales tax in our deliberations?

Mr. FORAND. I recall no such instance, and I believe most of the members of the committee are opposed to that type of tax because it is nothing but a camouflage, it is nothing but a tax we would be imposing on the so-called little people. I have argued that point many times and I will argue it again if ever that subject comes to the floor.

Mr. DOUGHTON. In any event, there was no sentiment expressed in our committee, as I recall, in favor of a general sales tax.

Mr. FORAND. There has not been; no, sir.

Mr. Chairman, I sincerely hope that the Members will not recommit this bill but will vote with us to pass it.

Mr. SIMPSON of Pennsylvania. Mr. Chairman, I ask unanimous consent that the gentleman from Michigan [Mr. DONDERO] be permitted to extend his remarks at this point in the RECORD.

The CHAIRMAN. Is there objection to the request of the gentleman from Pennsylvania?

There was no objection.

Mr. DONDERO. Mr. Chairman, the power to tax is still the power to destroy.

I rise at this time in opposition to H. R. 4473, not because I feel that additional taxes are needless, in view of the necessity for a pay-as-you-go defense mobilization; but because I feel that new

and heavier taxes will fail of their legitimate purpose, unless and until some other things are done.

It is all very well for the administration to come in here with a demand for a heavier tax load on the already overburdened American people, on the plea that such taxes will not only make a pay-as-you-go mobilization possible, but also will serve to combat price inflation. But the administration properly should do so, only if its own hands are clean of inflationary policies, which in themselves might be expected to make a pay-as-you-go mobilization utterly impossible.

Let me say, that the Ways and Means Committee of the House has done a remarkable job, all things considered, in attempting to squeeze more taxes out of the American people, when taxes already have reached what well may prove to be the point of diminishing returns. My criticism is directed chiefly to the fact, that the committee was willing to report out any tax bill at all, until after administration steps had been taken to assure its real effectiveness in financing the mobilization, and in helping to prevent inflationary expenditures by anyone at all.

Aside from the need for additional billions to pay for war material, for arms and equipment for ourselves and our allies, this whole business of vastly increasing the tax burden—as it was increased last year by \$10,000,000,000, as it would be increased this year by \$7,000,000,000 and as it obviously is intended to increase it by another \$12,000,000,000 a year hence—appears to be predicated upon one great fallacy. It is a fallacy which I cannot believe the administration incapable of understanding.

This great fallacy lies in the assumption, by the administration and many of its supporters on this floor, that reducing the spending power of the people, in itself, will curb inflation. This fallacy lies, too, in the further assumption that Government spending is not inflationary spending; that it is not, indeed, more inflationary than spending by the people for the things they desire.

The truth is—and we all know it, even though some of us refuse to admit the truth—that most Government spending is profitless and truly destructive spending; whereas, much of the spending outside of Government is creative spending, inasmuch as it goes for increased productiveness and the creation of wealth.

Admittedly, the inflationary effects of spending for arms and munitions cannot be avoided. This great Republic of ours must arm to the teeth, or perish in a world where brute force has become paramount internationally. Therefore it is all the more imperative that every possible step shall be taken to cut down inflationary spending when and wherever it does not contribute to national defense and to the strengthening of our national economy.

Earlier I mentioned that the administration properly can demand a vast increase in the Federal tax burden only if it comes here with hands clean of inflationary policies, which in themselves might be expected to make a pay-as-

you-go mobilization impossible. Manifestly the administration has not done so.

It is too early, perhaps, at this time to evaluate munitions procurement policies. A little later on we shall be able to judge as to whether the mobilization dollar is buying a dollar's worth of war goods. But the time is long since past when we first realized—all of us, who were willing to think objectively—that the administration was literally looking for political ratholes, at home and abroad, down which to throw the taxpayers' money.

I shall not impose upon you to enumerate all of these needless and often ridiculous expenditures in furtherance of the administration's political fortunes and of its socialistic ideology. Let me cite just one instance. Let me tell you again of what may be the most wasteful and viciously inflationary of the administration's domestic spending policies. The information is contained in a Civil Service Commission report, and therefore cannot be gainsaid by the administration.

During the month of March 1951, the Federal civilian payroll totaled \$393,000,000. This equaled the \$8,300,000,000 annual rate at the peak of World War II, when this country was maintaining Armed Forces comprising 11,000,000 men and women, and was fighting on battle fronts in every corner of the globe; when this country employed one civilian Government employee for every five in the Armed Forces. Yet our present military strength is little more than 1,230,000 men and women.

The figures I have just cited comprise only one small example of wasteful spending—the inflationary spending—in which the Federal administration now engages. A small example only when the tremendous total is considered. This is the kind of spending which must be stopped, before I and many others in this House, I believe, will go along with such a drastic increase in taxes.

Not only is this inflationary spending policy of the administration now creating ever higher prices for everything; prices which will make a pay-as-you-go mobilization entirely out of the question, but it is adding from day to day to the national debt. And that public debt already approximates \$270,000,000,000, a total which threatens the financial stability of the Government, and which will be a grievous burden upon our children for many generations to come.

Because of these things, it is my conviction that nonessential nondefense spending on the part of the Federal Government must be cut to an irreducible minimum—to the point where only those nondefense services which serve to maintain law and order remain—before new and heavier taxes are laid upon the people of America.

When this policy of strictest Government economy is made really effective, then, and only then, shall I support a bill resembling the present one. When it becomes possible to use the new taxes, not only to implement a pay-as-

you-go mobilization, but also to reduce in some measure the public debt; then I shall support the proposal for new taxes, up to the point where they do not discourage private savings and private investment or destroy the incentive to produce goods and services so necessary to our survival.

Mr. SIMPSON of Pennsylvania. Mr. Chairman, I yield 15 minutes to the gentleman from Wisconsin [Mr. BYRNES].

Mr. BYRNES of Wisconsin. Mr. Chairman, much has been written during recent years about the question of what constitutes a sound fiscal policy. We have also had many speeches yesterday and today dealing with that subject. It seems to me that in spite of all of the formulas that have been devised there are two basic principles of conduct that are still sound and still honorable. The first is that one should not spend more than he can afford, and the second is that one should pay his bills.

The first principle relates to expenditures. I think we must understand right from the beginning that this bill in no way either increases or decreases the expenditures of the Federal Government. We are not debating whether we are going to spend \$71,000,000,000, \$65,000,000,000, or \$90,000,000,000 in the year 1952. That is not the issue. That question is being decided in other legislation. It is being decided in the authorization bills that come before the Congress, bills such as the six bills which passed the House of Representatives only day before yesterday, and which it is estimated will add over half a billion dollars to next year's expenditures.

It is being decided in general appropriation bills. It will be decided in the supplemental appropriation bill, and the deficiency appropriation bills as time goes on between now and June 30, 1952. It is when these bills are debated in the Congress that the question should be asked: Are we spending more than we can afford? I have asked that question many times, and my answer has been: Yes, we are spending more than we can afford. I have voted time and again against new authorizations and against increased appropriations. I must sadly relate that most of the time I have found myself in the minority when the votes were counted.

Mr. Chairman, I think, however, that my record is quite clear. I have tried my best, during my membership in this House, to prevent spending more than we can afford. The record also shows I have not been successful in accomplishing that objective. The Congress and the administration is spending more than we can afford. It has done it in the past and it is doing it today. Much as I regret the situation, it will not be corrected, however, by what we do in this legislation.

This is a tax bill. It relates to the second principle which I believe is essential to a sound and honorable fiscal policy. What we do today, I think, will be evidence of our willingness or unwillingness to pay our bills.

I do not rise to defend the provisions of the legislation before us. Some of the

provisions I agree with, and I supported them in committee. Other provisions I wholeheartedly disagree with, and I oppose them in the committee. On still further provisions I think the committee went too far. In others, it fell short of what I believe should be contained in a tax bill at this time. In those cases, I tried to correct that when it was considered in committee.

It is easy to criticize this bill. From now on it is going to be easy to criticize any tax bill which comes before the Congress because we are scraping the bottom of the barrel. I agree wholeheartedly with those members of our committee and other Members of the House, both on the majority and minority side when they say we have hit that bottom. Let us remember, and it must be remembered constantly, as every bill comes before the Congress which involves the expenditures of money that we are at the bottom and we cannot go any further. I believe it is next to impossible to devise a completely sound tax measure which will meet the expenses of government now being incurred. The major provisions of this bill were written by the Democratic majority of the committee. That is only natural. The composition of that committee is 15 to 10. There are 15 Democrats and 10 Republicans. They have the majority. It was written by them and it is their bill. It is a different bill than would have been presented if it had been written by a Republican majority. But I think, in all fairness, I must say I am fearful that even such a bill if it raised the amount of money needed to pay for present expenditures, it would be subject to criticism. I regret to differ with some of the Members, probably the majority of the Members on my side of the aisle, and the minority members on the Committee on Ways and Means. It is a very unpleasant task. But many are talking about voting to recommit this bill to the committee. I disagree with that position.

If the bill is recommitted to the committee under a general or straight motion to recommit, I think we will either be left without any tax bill at all or any new tax bill that comes out will still be a Democratic tax bill. I do not think the basic views of the members of the Democratic majority of the committee are going to change overnight. I do not think the majority members are going to be more willing to accept the views of the gentleman from New York [Mr. REED], or the gentleman from Ohio [Mr. JENKINS], or my own views or the views of any of the Republican members of the committee tomorrow more than they were last week. I think their speeches yesterday and today is pretty good evidence of the fact that they do not have much of an intention to change their minds on these basic matters. I therefore do not believe that anything can be accomplished by a motion to recommit, and therefore it is not my intention to support a straight motion to recommit.

We are faced with a very ugly fact which we cannot avoid, no matter how hard we try. During the next fiscal year this Congress and the administra-

tion will spend in excess of the income produced by present taxes. It will do no good at this point to argue that they are spending too much. We know that fact. But the fact remains that the expenditures are going to be made. It is estimated by the staff of the Joint Committee on Internal Revenue Taxation that income from present taxes will amount to approximately \$61,000,000,000. At the beginning of the year the President called for expenditures of around \$72,000,000,000. That is being increased constantly. You will recall that just last Wednesday we received a request from the President, through the Department of Defense, for an appropriation of \$4,500,000,000 during fiscal 1952 for building construction for the Defense Establishment. That is not in the seventy-two billion Presidential budget; it is in addition to the seventy-two billion.

This House has demonstrated that the \$72,000,000,000 budget can be cut. There is no question but that it must be cut, but the question today, however, is not how much it could be cut. The question is how much it will be cut. We are dealing with a matter of dollars and cents, and I do not think that wishful thinking is going to give us the answer to that question.

I sincerely doubt if there is anyone in this Chamber who honestly believes that the expenditures made during the fiscal year 1952 will be less than \$68,000,000,000 when it comes to the end of the fiscal year 1952 and we add up the bills that have been incurred during that period of time. There are probably many, I think, who would call even that figure of \$68,000,000,000 as wishful thinking. But the point is that probably the best we can hope for, considering the temper of the administration and the temper of the Congress, is a difference of \$7,000,000,000 between the tax receipts under existing law and the expenditures that will be made.

The question before us today, therefore, is how is this bill for \$7,000,000,000 going to be met. There are only two methods—one is by increasing taxes and the other is by Government borrowing. Some of my colleagues have attempted to rationalize opposition to the tax bill by saying that if we do not raise the money they will not be able to spend it. I wish, and I wish so fervently, that that were true, but, unfortunately, that is not a true statement of the facts, nor is it a sound conclusion.

We speak of loopholes in the tax laws. Mr. Chairman, there is a big loophole in our spending laws. This loophole is well known to the present administration. It has been their salvation ever since 1935. I refer to the ease with which the statutory debt limitation is raised and bonds, certificates of indebtedness, and Treasury bills are issued. Since 1935 the limitation on the statutory debt has been raised six times, and today the prevailing ceiling is \$275,000,000,000. The public debt as of today is \$254,000,000,000, thus leaving a borrowing potential or spending loophole of \$21,000,000,000.

I cannot support the proposition that the bills we are incurring should be met by borrowing. In the first place, such a

policy would be the height of folly and inconsistency.

We are presently engaged in a battle in defense of freedom. Let us not forget that there is another battle that must also be won. That is the battle in defense of the value of the dollar. A sure way to lose both battles is to embark further on a program of deficit financing. No policy can be more inflationary and have more disastrous consequences to our people and our political and economic institutions. That is the practical reason why we must pay today's bills by today's revenue. But there is also a moral reason. In my judgment, there is no more dishonest, immoral, and contemptuous means of financing today's expenditures than that of putting it on the backs of our children. Yet, that certainly is exactly what we will be doing if we fail to provide tax revenue sufficient to meet the spending that is being authorized.

Mr. Chairman, on the wall behind the Speaker's desk is a plaque which reads:

Let us develop the resources of our land, call forth its powers, build up its institutions. Promote all its great interests and see whether we also in our day and generation may not perform something worthy to be remembered.

Loading our obligations on the generations to follow is certainly not something worthy to be remembered.

Mr. Chairman, I am going to vote for this legislation. I am going to vote to send this bill to the Senate rather than back to the Ways and Means Committee. I sincerely trust that the Senate will make substantial changes in some of the provisions of the bill. In voting for this measure, I am not voting for its provisions; I am voting for the principle that it is only sound and only honorable that we today pay our bills.

Mr. DOUGHTON. Mr. Chairman, I yield 30 minutes to the gentleman from Pennsylvania [Mr. EBERHARTER].

Mr. EBERHARTER. Mr. Chairman, I wish all Members of the House had been present to listen to the remarks of the gentleman from Wisconsin [Mr. BYRNES]. The gentleman from Wisconsin has made what I consider to be a very fine statement regarding the finances of the country and the policies that should be pursued. His statement indicates why he is considered one of the most able members of the Committee on Ways and Means, and I, for one, want it to be known that I appreciate it, and I am sure every member of the committee does. I was particularly happy when he said that he felt that, although he did not approve of all the provisions of the bill, he was not going to vote to recommit it. That should cause the Members who are opposed to the present passage of the bill to think very seriously about what would happen if this bill were recommitted.

Mr. Chairman, personally, I opposed several provisions that are in the bill now pending before the committee. I opposed them as vigorously as I could. I think they are unwise provisions; I think they are inadvisable, at least; but, all in all, the measure is a good one.

It would be a catastrophe not to adopt at this time a tax measure which will raise about \$7,200,000,000.

I do not approve of some of the depletion allowances, at least, to the extent granted under the bill. I think it is a loophole that cannot be justified.

I do not approve of the provision which weakens the present law relating to family partnerships because it, in my opinion, opens a loophole by encouraging the owners of business to take in fictitious partners, relatives, and minors, thereby reducing the tax brackets in which they should be and resulting in their not paying their fair share of the tax load.

There are several other provisions with which I do not agree, but in considering the measure as a whole I have come to the conclusion that they are minor.

The overriding consideration which the membership should keep in mind about this measure is whether as a whole it will be for the benefit not only of our defense program but of the economy of the country in future years to come. We certainly have not heard anybody in industry or finance, or in labor or in agriculture, or in any segment of our economy, or any Member of the Congress of the United States or any administrative official, or any economist, say anything that was in favor of deficit spending. The only way we can avoid deficit financing is either to cut out appropriations sufficient to balance the budget or raise taxes.

I think the remarks made by the gentleman from Wisconsin [Mr. BYRNES] were directed more at the action of the House and the other body in approving appropriations beyond the expected revenues. It was more a criticism of both branches of the Congress for their action in appropriating money than it was against the bill reported by the Committee on Ways and Means.

Mr. SADLAK. Mr. Chairman, will the gentleman yield?

Mr. EBERHARTER. I yield to the gentleman from Connecticut.

Mr. SADLAK. Inasmuch as there are more appropriation bills to be brought to the House for consideration, and we do not know the amount of the full expenditures to be made in the ensuing fiscal year, why would it not be a good idea to wait until we dispose of those appropriation measures before we finally enact a tax bill?

Mr. EBERHARTER. One of the main reasons for passing quickly a tax measure is to halt the inflationary spiral. The longer we delay passing a tax measure the worse the spiral is going to get. If we were to wait until September or October, it will cost the Government of the United States alone, to say nothing of the citizens of the country, billions of dollars additional because of inflation. We have the testimony of the procurement officers in our defense effort that the inflationary spiral has already cost over \$2,000,000,000. If we wait 3 months more, when the full impact of the procurement program of the Government is put into effect, it will probably cost \$5,000,000,000 additional, which we would not be compelled to

spend if we held down the inflationary spiral. The best way to hold down the inflationary spiral, according to the best economists, if not all of the economists, of the country, is to have higher taxation which will stop the amount of spendable money in the hands of the people who do the spending, and to restrict credit. I expect, Mr. Chairman, to go into that in a little more detail and to refer to certain authorities in my prepared remarks on that subject. But I think the longer we delay the tax measure the worse it will be for the economy of the country.

Mr. SADLAK. Will the gentleman yield for one further observation in that connection?

Mr. EBERHARTER. I yield.

Mr. SADLAK. I am very interested in the gentleman's reply and I shall listen to what he has to say in his prepared statement. But, I thought I read yesterday that the other body is contemplating taking a recess before they take any action on the tax bill. If that were to come about, then it will be another month or two before the other body takes any action on a bill which we might pass here today.

Mr. EBERHARTER. My information—and I am glad the gentleman brought that out—is different. I was told informally that the program in the other body is to commence hearings on this bill, if it passes the House, next Thursday. The hearings definitely will start in the other body on Thursday, starting with Government witnesses and then continuing with other witnesses. If that is true, it would certainly be a mistake for us not to act on it today.

Mr. ALBERT. Mr. Chairman, will the gentleman yield?

Mr. EBERHARTER. I yield to the gentleman from Oklahoma.

Mr. ALBERT. With further reference to this matter, should the revenues exceed the expenditures on the final wind-up, there would be nothing wrong with retiring a little bit of the national debt, would there?

Mr. EBERHARTER. That is a very wise observation on the part of my colleague, the gentleman from Oklahoma [Mr. ALBERT]. Everybody would be very, very happy if circumstances should arise so that we could reduce the national debt. It is a millstone around our neck. It costs us, I think, speaking from memory, about \$5,000,000,000 to pay the interest on the public debt, and anything that we can reduce that public debt by would be a great accomplishment. I want to say that since the close of hostilities the public debt has been reduced, I think, approximately twenty-five or thirty billion dollars, so in reducing the public debt we have saved perhaps a billion dollars a year in interest.

Mr. STEFAN. Mr. Chairman, will the gentleman yield?

Mr. EBERHARTER. I yield to the gentleman from Nebraska.

Mr. STEFAN. The gentleman has stated that inflation has increased the price to the Federal agencies by about \$2,000,000,000. I believe the President, in his statement the other night, mentioned the figure \$7,000,000,000.

Mr. EBERHARTER. I assume by that, perhaps, the President meant that, when all of the contract authorizations are consummated, the total cost, because of inflation, will be an additional \$7,000,000,000. Of course, we have not spent that much yet.

Mr. STEFAN. Where did the gentleman get the \$2,000,000,000 figure?

Mr. EBERHARTER. That was the figure on contracts, I think, that have already been completed.

Mr. STEFAN. The \$7,000,000,000 is on obligations, then; is that what the gentleman means?

Mr. EBERHARTER. I think that is what the President referred to.

Mr. STEFAN. There is another figure going back and forth on the public debt. I think the gentleman from Wisconsin mentioned a figure of \$254,000,000,000. It is generally stated that the public debt is \$256,000,000,000. Does the gentleman have any further information on that?

Mr. EBERHARTER. Those figures, I will say to the gentleman from Nebraska, are easily obtainable. My recollection was, the last time it was presented to me, it was about \$256,000,000,000.

Mr. STEFAN. I think the 256 figure is the figure I got from the Treasury.

Mr. EBERHARTER. Our revenue receipts have increased recently because of the high business activity and the general prosperity of the country. That has increased our revenue receipts beyond expectations. Perhaps that has temporarily reduced the deficit.

Mr. STEFAN. But so far as the gentleman is concerned he figures it at 256 rather than 254.

Mr. EBERHARTER. That is correct.

Mr. O'HARA. Mr. Chairman, will the gentleman yield?

Mr. EBERHARTER. I yield to the gentleman from Minnesota.

Mr. O'HARA. I would like to ask my colleague, the gentleman from Pennsylvania, if he approves of the 12½ percent increase in the income taxes in this bill. I am thinking particularly of what it is going to mean to those in the low pay-scale brackets.

Mr. EBERHARTER. I will say to the gentleman that I proposed the 12½ percent increase, so I am in favor of it. I have prepared some figures which will show how lightly it will bear on the lower income groups in comparison with some other suggestions that may have been made. I expect to go into that subject a little further, if the gentleman will bear with me, when I go over my prepared statement to make sure that I do not make any misstatements.

Mr. O'HARA. If the gentleman will yield for a brief comment, personally I have been very much concerned about that phase of the tax bill because I know people now who are just barely getting along by using extreme caution in their expenditures. Some of them frankly do not know where they are going to get this 12½ percent unless they get another round of wage increases.

Mr. EBERHARTER. That is one of the principal reasons why the 12½ percent is a preferable method of imposing a defense tax, because it bears a little

less heavily on those in the brackets below \$5,000. In other words, if a man's tax bill is \$200 a year and he is raised by 12½ percent, 12½ percent of the \$200 is \$25. In other words, he is raised about \$2 a month; whereas the taxpayer who has been paying, say, \$2,000 a year in taxes, when he is raised by 12½ percent, pays \$250 in additional taxes. He can bear a little more. I have those figures here, if the gentleman will bear with me, and I will put them in the RECORD. I should like to go ahead with my prepared speech now.

Mr. Chairman, as the distinguished chairman of the Committee on Ways and Means emphasized in the opening speech in the debate on this bill, under the Constitution, the Congress bears the primary responsibility for the fiscal solvency of the Government. More than that, it is with the House of Representatives that our founding fathers left the authority to initiate bills to raise revenue. The same is true of appropriation bills.

It is this body, therefore, regardless of which party is in power, to which the people of the country must look for guidance in matters of taxation and the wise expenditure of public funds.

The CONGRESSIONAL RECORD over the years is profuse with statements by Republican Members of the Congress that theirs is the party of conservatism. Theirs was the conviction that income should balance expenses, whether in Government or in private life. It is very difficult for me to understand, therefore, the reckless Republican irresponsibility in opposing the pending bill.

Perhaps, their lines of communication with their big business supporters have broken down, for within the past month most of the leaders of the big business organizations of the country have appeared before other committees of the Congress in support of higher taxes and a pay-as-we-go fiscal policy in the present emergency.

Of course, the setting for many of these statements was somewhat different. They were made before committees which have been considering the recommendations of the President for improving and continuing the Defense Production Act and the direct price controls and the other anti-inflationary controls provided by that legislation. Still, the leaders of business—both within and without the Government—were unanimous in support of higher taxes in the fight against inflation.

Mr. Charles Wilson, Director of Defense Mobilization and former head of General Electric, testified on May 7, 1951, before the Senate Committee on Banking and Currency, as follows:

When more and more money is bidding for the same or a lesser amount of goods and services, pressure on prices is generated. If prices were permitted to rise, wages would follow, then prices again and then wages. The only real answer to this problem is to balance supply and demand. Since we cannot achieve the balance by increasing civilian production immediately, we must reduce the excess purchasing power.

The President has emphasized the central importance of a fair and adequate tax pro-

gram to meet this problem. I wholeheartedly endorse this recommendation.

He was followed and supported by Mr. Eric Johnston, Administrator of the Economic Stabilization Agency, and former president of the United States Chamber of Commerce. Since Mr. Johnston has now been branded as a "renegade capitalist" by the National Association of Manufacturers, I suppose his reputation as a sound and successful businessman may be somewhat tarnished in the minds of my Republican friends. Nevertheless Mr. Johnston made the following statement in support of a pay-as-we-go tax program. He said:

This is the fundamental step in inflation control. It is not just a device for "siphoning off buying power"—as the economists call this technique for hitting us all in the pocketbook—but it also serves another equally important purpose. It avoids the necessity for the creation of new money.

If we don't pay as we go, the Government has to borrow the funds it needs. Spending borrowed money—borrowed from the banking system—is inflationary.

Furthermore, whether we take the cost of defense out of the pay checks of the people now or out of their bank accounts later—whether we pay as we go or go in for deficit financing—the real cost of this program cannot be deferred.

The real cost of defense is in things—in steel, coal, aluminum, copper, lead, and a host of other materials; also in manpower and horsepower. We're using them up now in defense procurement. Whether we pay for their cost now in dollars or pay those dollars later, we will see the actual cost of defense paid every day in terms we can understand—in terms of the availability of things we want to buy and otherwise would buy.

The extra \$10,000,000,000 or so a year which we would have to pay to put defense on a balanced budget is a small price to pay, indeed, when the alternative is inflation.

And Secretary of Commerce Sawyer, himself a recruit from the ranks of successful businessmen, recommended that—

Increases in taxation at least sufficient to cover the increased Federal expenditures planned for the coming fiscal year, should be provided without delay.

Even the president of the organization which is now so caustically attacking Mr. Eric Johnston—Mr. William H. Ruffin, president of the National Association of Manufacturers—in opposing continuation of wage and price controls, on the ground that they deal only with the symptoms rather than the basic causes of inflation, publicly recommended that—

The total cost of the military program, as well as other Government expenditures, must be covered by taxes.

And here is what Mr. Ruffin stated, as recently as Friday, May 18, 1951, despite what the gentleman from New York and other Republican Members of the Committee on Ways and Means have to say, and here I quote Mr. Ruffin, president of the National Association of Manufacturers:

We realize that probably no one knows the amount of additional revenue that is going to be needed. We think it is bound to come to a minimum of \$10,000,000,000 and

perhaps closer to \$25,000,000,000 annually, and we hope that Congress will raise that money by taxes in some way and certainly not continue the disastrous deficit spending.

Mr. Chairman, it would seem that our Republican friends really are not even in tune with the most conservative business thinking of the country. The president of the United States Chamber of Commerce testified before the Senate Committee on Banking and Currency, as follows:

Every effort should therefore be made to make indirect controls the primary weapon against inflation. With proper emphasis on them, Government wage and price-fixing should be unnecessary. Accordingly, we urge the following principles:

Levying of new and additional taxes to assure pay-as-we-go, consistent with necessary expenditures, and consistent also with maintaining incentives to work and produce.

He was preceded by Mr. Rowland Jones of the American Retail Federation, who opposed direct controls of prices and wages, and urged a pay-as-we-go fiscal policy. Mr. Jones said:

Further deficit financing by the Government should be avoided at all costs. Such additions to the public debt would add to the present huge reservoir of spendable funds creating additional inflationary pressures.

Mr. Chairman, this is but a sample of the most representative thinking of the business community. It is firmly in support of the policy of higher taxes to finance the defense effort.

Mr. Chairman, quite an issue has been made by the minority about the 12½ percent across the board increase in the individual income tax. The minority report suggests that this is socialism or at the very least that it is a great stride in the direction of socialism.

Of course, we have grown accustomed to Republican charges of socialism. More than 50 years ago other Republicans considering an income tax had even worse things to say. In the CONGRESSIONAL RECORD of June 22, 1894, a Republican Senator from Ohio described an income-tax provision in a pending bill as socialism, communism, devilism. And a famous Republican lawyer before the Supreme Court of the United States went the whole way and charged that the income tax there challenged as being unconstitutional was defended upon principles as communistic, socialistic—what shall I call them—populistic, as ever have been addressed to any political assembly in the world.

So as I say, Mr. Chairman, it is nothing new for Republicans to call an income tax based upon ability to pay socialism or any other smear word that only indicates they have no real arguments against it. This is particularly true here because the very method of increasing the income tax on individuals, as is contained in the pending bill, was first proposed in the committee in the form of a motion by the gentleman from Pennsylvania [Mr. SIMPSON].

I repeat—there was no disagreement between Democrats and Republicans as to method, but only as to the amount of the percentage increase. The gentleman from Pennsylvania [Mr. SIMPSON] offered a plan for a 10-percent increase

and our proposal was for a 12½-percent increase.

Since it is necessary to rely heavily on the individual income tax, the only question was how the individual income tax, based upon ability to pay, could best be adjusted to raise the additional amount of revenue. The following four reasons support a 12½-percent increase in present tax:

First. The 12½-percent increase has the effect of increasing the rate of tax in the first tax bracket from 20 to 22.5 percent. Any larger increase in the lowest bracket would constitute a severe hardship on the low-income groups, especially in view of the increase in cost of living.

Second. The 12½-percent increase would distribute the additional tax burden by income classes—over and below \$5,000—on the same proportion as under present law. In other words, under the 12½-percent plan, each group bears as much of the increase as they do the tax burden at the present time.

Third. The 12½-percent plan cuts take-home pay in the higher brackets to a greater degree than the lower brackets, and therefore conforms with ability to pay.

Fourth. The 12½-percent plan is simple, and when it is possible to reduce taxes, quick repeal would be feasible.

Now in the debate on yesterday, there was a colloquy between the gentleman from Pennsylvania and the gentleman from Arkansas, during which the gentleman from Pennsylvania indicated that his 10-percent-across-the-board increase would have followed the form of the defense tax imposed in 1940.

It was pointed out thereafter that the so-called Victory tax in 1940 failed to allow more than a single personal exemption and gave no recognition for the number of children or other dependents of the taxpayer. Consequently, I have checked the minutes of the Committee on Ways and Means, and I believe that if the gentleman from Pennsylvania will do the same, he will find that his motion embodied a flat 10-percent across-the-board increase in the present tax liability of all taxpayers.

In any event, Mr. Chairman, just what is the margin of difference between the 10 percent increase proposed by the Republicans and the 12½ percent increase contained in the pending bill. I have prepared a table comparing the individual income tax liabilities of a single person and of a married person with two dependents under present law, the Republican 10-percent plan, and under the increases provided by House bill 4473. Now, this is what the difference in tax would be at various income levels.

Individual income tax

SINGLE PERSON—NO DEPENDENTS

Net income before exemption	Amounts of tax			Increase in tax over present law per year		Difference in tax between Republican plan and H. R. 4473
	Present law	Republican plan	H. R. 4473	H. R. 4473	Republican plan	
\$800.....	\$40	\$44	\$45	\$5	\$4	\$1
\$1,000.....	80	88	90	10	8	2
\$1,500.....	180	198	203	23	18	5
\$2,000.....	280	308	315	35	28	7
\$3,000.....	488	537	549	61	49	12
\$5,000.....	944	1,038	1,062	118	94	24
\$8,000.....	1,780	1,958	2,003	223	178	45
\$10,000.....	2,436	2,680	2,741	305	244	61
\$15,000.....	4,448	4,893	5,004	556	445	111
\$20,000.....	6,942	7,636	7,810	868	694	174
\$25,000.....	9,796	10,776	11,021	1,225	980	245
\$50,000.....	26,388	29,027	29,687	3,299	2,639	660
\$100,000.....	66,798	73,478	74,831	8,033	6,680	1,353
\$500,000.....	429,274	\$ 450,000	\$ 450,000	20,726	20,726	—
\$1,000,000.....	\$ 870,000	\$ 900,000	\$ 900,000	30,000	30,000	—

MARRIED COUPLE—TWO DEPENDENTS

\$3,000.....	\$120	\$132	\$135	\$15	\$12	\$3
\$5,000.....	520	572	585	65	52	13
\$8,000.....	1,152	1,267	1,296	144	115	29
\$10,000.....	1,592	1,751	1,791	199	159	40
\$15,000.....	2,900	3,190	3,263	363	290	73
\$20,000.....	4,464	4,910	5,022	558	446	112
\$25,000.....	6,268	6,895	7,052	784	627	157
\$50,000.....	18,884	20,772	21,245	2,361	1,888	473
\$100,000.....	51,912	57,103	58,401	6,489	5,191	1,298
\$500,000.....	402,456	442,702	\$ 432,027	29,571	40,246	\$ -10,675
\$1,000,000.....	857,456	\$ 900,000	\$ 900,000	42,544	42,544	—

1 Maximum effective rate limitation of 87 percent.

2 Maximum effective rate limitation of 90 percent.

3 Maximum marginal rate limitation of 94½ percent applies under H. R. 4473.

First, this table shows that a single person earning \$1,500 a year would pay only \$5 more under the committee bill than under the Republican proposal. A single person earning \$5,000 a year would pay only \$24 a year more.

A married couple with two children and a family income of \$8,000 would pay only \$29 a year more. Such a family with \$50,000 a year income would pay

only \$480 a year more, and even the \$500,000-a-year family would pay only \$1,300 a year more in taxes under the bill than under the Republican alternative. Persons receiving a million dollars and over would pay no more under the committee bill than under the Republican plan.

Now, in all sincerity, Mr. Chairman, I ask my Republican friends, does the

difference between socialism and Republicanism really hang on such a slender thread as this?

Mr. Chairman, in all sincerity I think if the membership will really give serious consideration to the different arguments advanced here and to the relatively slight small differences of opinion, I think there should be no doubt in their minds that this bill ought to be passed. It should not be recommitted to the committee because, in my opinion, if it is re-committed, we will have no tax bill whatsoever and we will be flying in the face of the advice of every economist, every person who has studied finances, every successful businessman, and the representatives of the most conservative business organizations.

So, Mr. Chairman, I hope that the members of the committee will weigh carefully the consequences of their vote on this measure, and will vote in favor of the bill as an integral part of our program of economic and fiscal support of the defense program.

The CHAIRMAN. The time of the gentleman from Pennsylvania has expired.

(Mr. EBERHARTER asked and was given permission to revise and extend his remarks and include a table.)

Mr. REED of New York. Mr. Chairman, I yield 10 minutes to the gentlewoman from New York [Mrs. ST. GEORGE].

Mrs. ST. GEORGE. Mr. Chairman, I have listened with interest and with a great deal of concentration to the discussion on the bill now before the House. After listening to the protagonists of the legislation, may I say that I am more than ever convinced that I will vote against it. It is very evident that most Members on both sides of the aisle consider this a poor bill. It has a great many things in it that are hypocritical and absurd: among others, the taxing of gambling when gambling is illegal in the United States. To me this is an utter farce and absolutely ridiculous. To say that you are going to license a gambler but that his business is illegal certainly, to me, is not a very logical or equitable form of taxation. In addition to that, this bill, of course, is introduced under the guise that it is necessary for national defense.

We have just heard it said that a good many things that have been stated today and yesterday have been said before—yea, even 50 years ago—but I submit, Mr. Chairman, it is the fashion now, whether we want to give pea shooters to the Hottentots or to raise money for skimmed milk for South Africa, to say it has got to be done for national defense, and then trust that there is no answer to that.

Let us look at some of the figures. This bill will raise by taxation \$7,199,000,000. The President's budget asks for national defense, including aid to Europe and the defense of Western Europe, \$60,600,000,000; so that certainly \$7,199,000,000 will be a flea bite as far as national defense is concerned.

Last week I inserted in the RECORD some figures by Professor Moley, who is

one of the original architects of the New Deal, and who, therefore, I do not think can be considered as biased or as a reactionary Republican.

As I am sure this has not been read by many of the membership, I would like at this time to read some of these figures again. Professor Moley takes exception to the fact that the President frequently has made predictions that were not only a little short of the mark but very far short of the mark. He says:

The President predicted an income for fiscal 1951 of \$44,100,000,000. The prospect now is that there will be about \$51,000,000,000. A deficit of \$3,100,000,000 will not appear. Instead, there will probably be a surplus of about \$4,000,000,000. The President's figure is a \$7,000,000,000 error.

That, I submit, is quite a large error.

There is an almost certain assurance of a continued rise in the Nation's gross national product in 1952. This will produce billions more in Federal income from present tax rates. The President estimated tax receipts for fiscal 1952 at \$55,100,000,000. It is probable that tax receipts at present rates will be about \$8,000,000,000 higher than that.

And this bill proposes to raise \$7,199,000,000.

There will also be an improvement in cash in trust funds available for nonnegotiable bonds (money from one of Uncle Sam's pockets to another) of \$2,000,000,000. Thus, if no additional taxes are levied, and if no great increase appears in expenditures, we shall come close to a balanced budget in fiscal 1952.

These are Professor Moley's figures and words, not mine.

Now, to go on with the problem of national defense. He says:

All of this assumes no cutting of expenditures in line with the sound suggestions of Senators BYRD, DOUGLAS, and others. If we want to balance our budget with a comfortable surplus, Congress should search for more economies rather than more taxes.

And here, indeed, is the crux of the problem. If we go on giving this administration more money so that they can spend more extravagantly, the spiral will go on forever. We have got to economize first and tax afterwards. Again, Dr. Moley says:

If we need more money later because of greater military expenditures here and abroad, there will be time later this year or in early 1952 to levy new taxes.

It is my understanding that already the Pentagon is working on its supplementary appropriations for the next fiscal year, so quite obviously these things can be taken care of when they come. Professor Moley says further:

President Truman's past record is there for anyone to see. Let us go back to another pre-election year, 1947. In January 1947, he predicted a surplus of \$202,000,000 for fiscal 1948. In August he changed that estimate to a surplus of \$4,400,000,000. The actual surplus for fiscal 1948, * * * was \$8,400,000,000. Truman has had plenty to say about people who failed to predict his election. In answer to this I wish to say that in 1947 in this column and elsewhere I wrote that his tiny surplus for fiscal 1948 would turn out to be a surplus of between seven and eight billion dollars. I also suggested that in underestimating the fiscal 1948 income in 1947 he was preparing a sweet political brew for 1948.

And maybe this sweet brew is going to be prepared here on the floor of this House for 1952.

No, it is the same old slogan, I am afraid, of "Tax, tax, spend, spend, elect, and elect." How long are we as the people's representatives going to stand by and let this continue? I believe indeed that we are responsible for this situation. I do believe that we Members of Congress are responsible for the extravagance and the waste in our Government. I do believe that we could well trim down a lot of waste and extravagance, even on that sacred cow, the Defense Department of the United States.

I hope that here this afternoon we will take a stand and make a stand and go back to our people and tell them that we have tried, and we hope succeeded, in holding the line. If we do not do it now we are going down that road to socialism from which it is hard to return. It is the fashion now to decry this, to speak of the great gains in corporation incomes, but it will not take long to pull that string; and with unwise taxation, as this most surely is, we may very well accomplish the ruin of this country as Lenin expected it to be accomplished and as Stalin intends that it shall be accomplished, namely, by ruining the fiscal policy and the free-enterprise system of these United States.

Mr. Chairman, I sincerely and earnestly hope that this bill will be defeated and will be sent back to the committee.

Mr. DOUGHTON. Mr. Chairman, I yield 5 minutes to the gentleman from Oklahoma [Mr. MORRIS].

(Mr. MORRIS asked and was given permission to revise and extend his remarks.)

Mr. MORRIS. Mr. Chairman, I should like to present some figures for your consideration and for the RECORD, and to ask a few questions.

According to the budget figures, approximately 83 percent of this proposed budget of \$71,600,000,000 is for either past wars or the present war or national defense. Only 17 percent of the budget is for everything else. To put it in dollars and cents, \$59,700,000,000 of the budget is for past and present wars, and our national defense, and \$11,900,000,000 is for all other purposes. For the General Government item alone it is \$1,400,000,000. The point I make is this: If we are to carry on with our defense, the defense of our Nation, and no one certainly will object to that, for we are all for national defense, then how are we going to reduce the budget to any appreciable degree?

The budget estimate of receipts for the fiscal year 1952 is \$55,100,000,000. The budget for 1952 is \$71,600,000,000. It seems to me it is imperative that we pass this tax bill or some tax bill, unless we are to engage in deficit financing. Of course it is an unpleasant thing for us, always, to vote for taxes. But if we are going to bring in all these authorization bills, and the appropriation bills, and if they are going to become the law of our land, then there is no other way for us to balance the budget, that I can see, except to raise taxes. The great and

beloved chairman of the Committee on Ways and Means has told us, as well as other members of the committee, both on the right and the left, that so far as they can ascertain, if the bill is recommitment, they will not be able to bring in any better bill. So I think it would be foolish for us to recommit the bill and I think, to some extent, it might be disastrous for us to do so.

If you will excuse a personal reference, I might say that I am personally in a better position to vote against this bill—although I am going to vote for it and against a motion to recommit—than some other Members of the House may be because, personally, I have voted against and have opposed most of the billions of dollars that have gone to foreign governments.

So I could say, and excuse my conscience, halfway, at least, "I did not vote for those billions and, therefore, I am not going to vote to raise the taxes to pay them."

But that is beside the point at this time. My theory did not prevail and the authorization bills passed anyway, notwithstanding my opposition, and they were followed by the appropriation bills. Since Congress passed them, then there is no other way for us to perform our duty, as I see it, except to support this tax bill. Yes; I could have an out myself by saying, as I suggested, that I was not responsible for this. But, as a responsible Member of the Congress, I realize that the Congress has worked its will in the matter on these authorizations and appropriation bills, and, therefore, there is nothing for us to do, as I see it, except to raise taxes, to some appreciable degree, to take care of these enormous expenses.

Some of the Members have indicated—and I want to emphasize this—that the thing to do is to reduce expenditures. Of course, all of us agree that we are against waste and all of us agree that we will vote to reduce expenditures that we think are not necessary. But some have suggested that we reduce the budget \$10,000,000,000. Some have suggested that we reduce it \$5,000,000,000. I want to repeat that all phases of the budget—everything outside of defense and wars—amounts to only \$11,900,000,000, and if you should reduce it \$5,000,000,000, you would reduce it almost 50 percent and you would practically destroy the Government.

Of course, if someone can step forward and show where there are billions of dollars for our national defense that are not needed, then we might be able to get somewhere. Both you and I and all the rest of us are going to vote every dime that is necessary for us to defend ourselves. If there is any question in our minds, we are going to resolve it in favor of the defense of our grand country, our way of life, our Constitution, our laws, and our Americanism. So unless somebody can come forward and present some figures that will show there is enormous waste and unnecessary appropriations for our defense, there just is not any feasible way, that I can see, where we can reduce this budget very much, percentage-wise.

Certainly, since the budget calls for seventy-one and six-tenths billion, and since the estimated receipts will be fifty-five billion, it is quite a long way between those two points, fifty-five and seventy-one and six-tenths billion.

I think the great chairman of this great Committee on Ways and Means, and the members of it, are to be complimented for this bill that they have labored with and worked on, lo, these many weeks and months. Let us give them our approval of this bill.

There are a number of items in the bill, of course, that I wish were not there. I have listened carefully to this debate. I have studied the report and the bill as best I could in the time I have had. I know the bill is not a perfect bill, but if we recommit this bill, and if it remains recommitted from now until doomsday, there will never be a perfect tax bill brought in. It just cannot happen. If you recommit it, you will destroy the labor of this great committee which it has performed in a herculean manner, and you will, in my judgment, retard the progress of our great Nation.

I ask you to consider the figures that I have presented to you.

The CHAIRMAN. The time of the gentleman from Oklahoma [Mr. MORRIS] has expired.

Mr. REED of New York. Mr. Chairman, I yield such time as he may desire to the gentleman from Montana [Mr. D'EWART].

(Mr. D'EWART asked and was given permission to revise and extend his remarks.)

TAXES TAKE THE HIGH ROAD

Mr. D'EWART. Mr. Chairman, the House, after 6 months of study, has completed action on the new tax bill.

The bill includes increases in individual and corporate income taxes as well as in manufacturers and retail excise taxes, the total of which, it is estimated, will yield the Government an additional \$7,200,000,000 a year, beginning in 1952.

The largest source of new revenue will be individual income taxes, on which a 12½-percent increase is expected to yield \$2,847,000,000.

Secondly, a 5-percent increase on corporation income tax and a 12½-percent increase on capital gains is expected to yield \$2,817,000,000. For corporations with an income of less than \$25,000, this means a rate of 30 percent. For those above \$25,000 the new rate is 52 percent. The House bill makes this tax effective as of January 1, 1951, one of the few retroactive features in the bill. This is the highest corporation tax in the history of our country. It is an inflationary tax, adding to the cost of the products of industry.

The third general category is excise taxes, where a net increase of \$1,252,000,000 is made.

The House refused to reduce the depletion allowance on oil operations, and it voted to extend capital-gains treatment to livestock, two decisions that will affect Montana people.

YOU TAKE THE LOW

In a general discussion several weeks ago, I referred to the fact that billions

of dollars do not have much meaning to most of us unless they are broken down to show how much each of us must pay.

At that time I pointed out that Montana people are contributing an estimated \$166,000,000 in all kinds of Federal taxes this year. Incidentally, that is about four times as much as our State government costs us. But with the new proposed taxes in operation, in 1952, Montana's contribution to the Federal Government will rise to about \$220,000,000. On a per capita basis, this means that each Montana family of four will have a Federal tax bill of \$1,300, an increase of some \$400 above the present level. Let me examine some of the provisions that go to make up that total.

First, of course, is the individual income tax. You can figure out your own probable tax bill for this year and next. Since the new law as approved by the House would be effective September 1, the new rate would be effective for only one-third of this year's income. This you can compute this year's tax by adding 4 percent to the 1950 tax. For 1952, add the full 12½ percent. For example, a married man without children, earning \$5500, paid \$760 in taxes in 1950. This year, under the House bill, his tax will be \$30 more, and next year \$95 more—or a total of \$855 for 1952.

The 5 percent increase in corporation taxes—and the 12½ percent rate on capital gains—are simply added costs of doing business. They will be passed on to the consumer—adding to each person's individual share of Federal taxes.

The new excise taxes will take another cut of your income. To illustrate—a new dishwasher or electric razor will cost you 10 percent more than it does now. A \$1500 automobile will carry a tax of \$150 or \$45 more than the present amount. And if you use 10 gallons of gas a week to drive your car, the Federal Government will take an additional \$26 per year above the present levy.

The expected yield of some of these increases in excise taxes include: \$177,000,000 on cigarettes; \$168,000,000 on distilled spirits; \$210,000 on gasoline; \$196,000,000 on automobiles, and \$400,000,000 on gambling.

The bill also includes some items in which there are tax reductions—but in the main it is a large increase in the high cost of government and, therefore, in the high cost of living of every American.

This is the price we are paying for 20 years of self-indulgence in national affairs—and for the blunders that have brought us into a new war—the second in 10 short years.

You have the Congress to thank that the bill is not greater than it is. President Truman—you will recall—asked for \$10,000,000,000—40 percent more than the House authorized in this bill.

The House thought it possible to get along with the lesser amount because it is working toward a corresponding reduction in the amount the Government will spend—an item the President failed even to mention in his recent speech to the Nation—but one that I believe is of paramount importance.

OBJECTIONS TO THE BILL

In spite of the need for increased Government revenue, at the present rate of spending, I will vote to send this bill back to the tax committee for further consideration. I will do this, first, because 75 percent of the tax increase will fall on those with incomes under \$5,000 a year; second, because it is confiscatory in the top brackets, in that the rate is 94½ percent, which added to State income taxes, would leave little or no income in at least 15 States; third, the budget is now approximately in balance because of the tax increases made last year; fourth, the bill is inflationary and puts a penalty on thrift; fifth, I have serious doubts that our economy can stand a \$17,000,000,000 increase in taxes in 1 year—particularly when it means that 31 percent of our national income will be drained off to support Government; sixth, I believe the economies recommended by the Hoover Commission and the cuts in spending recommended by Senator BYRD should be put into effect before taxes are raised. If these things were done, no such increase as is contained in this bill would be necessary to balance the present 1952 budget; seventh, the bill is full of inequities such as the fact that under its provision a corporation in the higher brackets could increase its own spending with 82 percent of the additional coming out of its Federal tax liability and only 18 percent from the company.

If, in the next fiscal year, our budget does get out of balance due to national security expenses, the Congress can then reexamine the situation and take such action at that time as the new conditions warrant.

Inflation, as I have said many times, is the result very largely of wasteful and unnecessary expenditures by the Federal Government over the past 20 years. Many of these expenditures may have been desirable, but we did not pay for them out of current income.

It is true that increased taxation is one of the tools that can be used against inflation. But we are not going to win the fight against inflation until we stop the practices that brought it upon us. We should exhaust the possibilities of cutting Federal spending before providing additional revenue. This we have not done as yet.

As 10 Republican members of the Tax Committee said in a minority report:

The new \$7,200,000,000 tax bill is unbalanced and lopsided and is economically unwise in its major revenue-raising provisions.

They also said:

The Truman administration is under the false illusion that pay-as-we-go means only a one-way street of ever-increasing expenditures paved with higher taxes.

Mr. REED of New York. Mr. Chairman, I yield such time as he may desire to the gentleman from Connecticut [Mr. PATTERSON].

(Mr. PATTERSON asked and was given permission to revise and extend his remarks.)

Mr. PATTERSON. Mr. Chairman, the tax bill we are being asked to consider is an economic monstrosity. It im-

poses an unjust burden on the people least able to assume the burden. The tax boost was of doubtful conception and is being illegitimately fostered upon the American taxpayer.

The whole process of increasing taxes at this point is a case of putting the cart before the horse. Although the House has adopted some appropriation measures, we are by no means close to an estimated budget for fiscal 1952. The Senate has not as yet shown any substantial progress in this regard. Yet without knowing what amounts are to be spent, we are asked to levy even greater taxes upon the people.

I have told the citizens of my district for many months that I would refuse to consider additional tax-revenue measures until some disposition had been demonstrated by the President and his subordinates in the executive branch toward economy. In lieu of any such attitude, Congress was dared by the President to cut his estimated budget. We have made strides toward just that objective. Some cuts have been made, and I trust that the same spirit will be in evidence in considering the remaining appropriation bills.

No effort has been made to inform the public as to the very substantial reductions in take-home pay alone under this bill. With a multitude of manufacturers' and consumers' excise taxes included, passage of this bill would lower the standard of living of the lowest income groups.

In income-tax increases alone the average increase on wages between \$1,000 and \$5,000 would amount to \$30 per person per year. This will naturally vary with the amount earned. Those approaching an income of \$5,000 will pay vastly more than the \$30 amount. Let us not forget that this is merely an addition to the extremely high withholding tax now imposed. About 80 percent of my constituents are in this earnings class, and they cannot bear this additional burden without lowering their living standards.

If the revenue under this bill were to be used exclusively for the security of our Nation not one citizen would protest. If this were the only way in which our Nation could attain a balanced budget and a pay-as-you-go system, not one citizen would protest. Instead, we observe daily the wasteful expenditure of money by the administrative agencies of Government. We observe the reluctance to reduce personnel. We observe the continued inefficiency and the continued sponsorship of pet nonessential projects.

My constituents demand that such practices be stopped. They demand economy and efficiency in Federal Government before taxes are raised. I subscribe to their demands, and refuse to support this "tax upon tax" bill.

Mr. REED of New York. Mr. Chairman, I yield such time as he may desire to the gentleman from Pennsylvania [Mr. VAN ZANDT].

(Mr. VAN ZANDT asked and was given permission to revise and extend his remarks.)

Mr. VAN ZANDT. Mr. Chairman, in the few minutes allotted to me I would like to present my views on the Revenue Act of 1951, which is now being considered and which is without doubt one of the most important legislative matters to come before this Congress. It is important because it affects the daily life of every American citizen.

When discussing this legislation, I want it understood that I have always voted for every dollar necessary for our national defense. I have, however, always opposed wasteful expenditures of Federal funds which increases the cost of government and makes high taxes necessary.

The bill we are now considering will produce in a full year of operation \$7,233,000,000 in tax revenue, which, added to the two tax increases already granted by Congress since the beginning of the Korean War, June 25, 1950, brings the overall total of new taxes within the past year to \$17,000,000,000.

When this legislation is enacted the total amount of taxes to be paid by the American people during the fiscal year 1952 will amount to \$66,329,000,000—the greatest tax load ever assumed by the American people.

The \$7,233,000,000 in taxes to be raised by this bill will come from the following sources:

(a) First. Individual income taxes will be increased 12½ percent, or one-eighth of an individual's present income tax.

Second. The withholding tax on all wage earners will be increased from 18 percent to 20 percent.

Third. In case of persons in the higher salary brackets, the maximum tax is 90 percent.

(b) Regular tax on corporations will be increased from 38 to 52 percent, retroactive to January 1, 1951.

(c) Makes the 82 percent combined excess profits tax applicable to 25 percent of normal profits on all corporations, with the tax being retroactive to January 1, 1951.

(d) Raises the limit on the overall tax on corporations to 70 percent.

(e) Increases the excise or so-called luxury tax on certain items, including gasoline, automobiles, electrical appliances, cigarettes, sporting goods, fountain pens, and so forth.

(f) Establishes several new taxes, including a 20-percent withholding tax at the source on all dividends derived from investments.

The request by the President to Congress for sufficient moneys to operate the Government for the fiscal year 1952 amounted to \$71,600,000,000, and by subtracting the total taxes to be paid by the American people during that period, which amounts to \$66,329,000,000, one can readily see a possible deficit for the fiscal year 1952 of \$5,271,000,000.

Unless the cost of government is drastically reduced for the fiscal year 1952, the President will have to do one of two things. He will either have to ask Congress for more taxes, or he will have to add the deficit to our already huge national debt, now in the neighborhood of \$260,000,000,000.

In speaking about the national debt, it is interesting to note that it is six times larger than it was in 1939. Based on our population of 154,000,000 people, each person's share is approximately \$1,665.

It is unfortunate that the American people are being led to believe that the national debt is of no concern and that we merely owe it to ourselves. Nothing could be further from the truth.

Every American who has saved a dollar, or who has purchased life insurance or other forms of investments, or who owns a small savings account or a piece of real estate is seriously affected by our swollen national debt. Every time we add a dollar to the national debt, we encourage inflation which decreases the value of the dollar and thereby places our national economy in jeopardy.

As an example, the purchasing value of the American dollar in 1945 was 94½ cents and since that date, because of inflationary causes, it has steadily decreased in value until today it is about 54 cents. Some economists claim that in certain fields of business the value of the dollar has decreased to 38 cents.

As the value of the dollar declines, more and more dollars are needed by everyone to buy the same amount of goods. When such a condition exists for any length of time, the whole economy is in danger of total collapse.

As I have said before, every American who has a bank account, a share of stock, a piece of real estate, or an investment of any kind, stands to lose as the value of the dollar shrinks.

If our country should ever face an economic collapse, we will awaken some morning to find that the dollar in our pocket is virtually worthless.

In addition to the national debt of some \$260,000,000,000, which vitally affects all of us, the question of increasing taxes definitely threatens the economic structure of our Nation. This bill, which we are considering here today, taxes industry and commerce to a point where it virtually amounts to confiscation of private property.

On the other hand, these high taxes increase the cost of living to the individual taxpayer. Incidentally, during the past year the cost of living has increased from 170.2 percent over 1939 to 185 percent—an increase of about 15 percent.

Mind you, the individual taxpayer who has had his cost of living increased 15 percent the past year is paid in wages with a dollar that has decreased in the last 12 months to 54 cents.

Therefore, when we talk of increasing taxes on industry and commerce, we actually increase the cost of living to the individual taxpayer while paying him in wages with a dollar that is worth little more than half its face value.

At the same time, through this bill, we are increasing the individual's personal income taxes to his Government by one-eighth of the amount he is now paying.

In other words, out of every dollar the average American earns today, 35 cents is paid in taxes to the Federal, State, county, and local governments. This is the highest tax level in the history of our country and warrants serious con-

sideration in the opinion of trained economists.

I have heard it said many times on this floor by experienced legislators that when we reach the day that you extract from the pockets of American taxpayers an amount over one-fourth of his earnings, you are courting national bankruptcy.

It may be well for us to take a lesson from the experience of France and England, who have suffered from one economic crisis after another.

Looking at France we find that between World War I and World War II, French public expenditures rose to a point where 34 percent of the French taxpayer's income was taken by his Government. As a result, the franc was devalued to a point where the economy of the country was destroyed. Today France is vainly trying to recover its economic balance.

In the case of England, at the beginning of World War II the Government was taking 26 cents out of every dollar earned by the wage earner for tax purposes. In 1945 it rose to 42 cents and in 1947 it continued its flight until it reached the high figure in 1949 of 44 cents.

Today Great Britain has the highest tax rate of any nation in the world, and we all know that the economy of the British Government would have completely collapsed, were it not for the financial aid extended by the United States.

While considering the economic plight of France and England, we are reminded that during World War II Federal taxes alone in this country took 29 cents out of every dollar earned by American citizens. Between 1946 and 1948, these taxes decreased to 25 cents out of every dollar earned.

Today, however, as I have already mentioned, in addition to the Federal taxes, the average American is paying over 35 cents in taxes out of every dollar earned.

In my opinion, we have passed the danger point in taxes in this country and unless we profit from the fate that befell France and England, we face the pain and torture they endured in going through the process of reestablishing a sound monetary system.

We should never lose sight of the fact that when any foreign nation finds itself in an economic tailspin, Uncle Sam is always ready with an open purse to aid in bailing them out of their financial difficulties. Yet, we all know that if our economy is wrecked there will be no Santa Claus to come to the aid of Uncle Sam.

Make no mistake, we are in the dizziest spending and taxing period in the history of our country and it is for that reason that we must stop, look, and listen, if we are to maintain any semblance of a sound and solvent Government.

We must reduce nonessential governmental expenditures to an absolute minimum.

The \$1,240,000,000 that we Members of the House of Representatives have cut from the President's huge budget of

\$71,600,000,000 represents a reduction in appropriations for seven Federal agencies. While this reduction is only a drop in the bucket, it is evidence of the fact that savings can be effected if there is a genuine effort made to achieve such a goal.

We must scrutinize closely and carefully the foreign aid and military authorization requests still to be considered by the House and which total almost \$70,000,000,000.

The time for talking about economy in Government is over.

If we are to meet the challenge of communism, we need a strong and solvent nation, and therefore economy must be practiced and not merely preached.

After all, it was Lenin who said that the hope of communism was to maneuver this Nation into a position where it would spend itself to destruction.

In my opinion, at the rate we are going, that day is not far distant.

Mr. REED of New York. Mr. Chairman, I yield 7 minutes to the distinguished gentleman from Illinois [Mr. JONAS].

Mr. JONAS. Mr. Chairman, I wish it were possible to say that this distinguished committee that has been working on the laborious task of preparing this involved and very important bill could have prepared a measure that would have satisfied every segment of our society throughout the country. I am convinced it cannot be done. I am further convinced that if they did perform such an outstanding task it would be registered as the most outstanding achievement of this twentieth century.

In the few minutes that have been allotted to me I want to point out that I have objection to two particular phases of this bill. I consider a third segment of this bill as obnoxious.

I am not in favor of this occupational tax; the \$50 tax to start with, but I will get to that in a moment.

I am opposed to the 20 percent withholding tax on interest and on dividends. I am opposed to it because the Federal Government is again guilty of what it has been guilty of for so many years past. They have extended their powers way beyond that which is justified, and in this respect the Federal Government is guilty of encroaching upon the rights of the people in trying to collect taxes. They confess that they do not have the facilities to collect all the taxes. So they are again branching out and loading this task upon private enterprise. The money that the Government will collect in comparison to the hardship that they will impose upon the people who will be victims of the withholding tax on dividends and interest is so infinitesimal that it is not worth it in comparison to the hardship they perpetrate upon these people.

Secondly, there is another feature of the bill which is objectionable, it is that section exempting a private residence from paying a capital gains tax when it is sold. Standing alone I would be for such exemption. But as the tax is planned to be imposed it is not only inflationary but it is class legislation, it picks out residential property only. What

about the farmer who may be so unfortunate as to have a house on a piece of property larger than 50 by 100 feet?

Third, I call your attention to this—it is very enlightening—the license feature in this bill which has to do with wagering, the wagering tax. It begins by stating that each person required to pay a special tax under this subchapter shall register with the collector of the district, his name, and place of residence. I come from the great city of Chicago, with more than 4,000,000 people in the city proper and another two million in its environs. We have 180 fixed racing days in that area. After serving in our city courts for about 14 years I have had considerable experience in knowing what it means to operate a bookie and to keep track of what can be done about them.

If this legislation can reach out and stamp out gambling and vice in my good community I will be the most grateful person who ever walked the floor of this House. But all this legislation does is to throw a sop to the people; it does not stamp out anything; it is specious and fictitious.

In our State if the Federal employees come in there to indirectly give countenance to permitting gambling, I hope the sheriff of my city will take them by the scruff of the neck and show them the way out of the city. I am not in favor of gambling; I am against all forms of illegal gambling, including the paraphernalia or whatever it takes to carry it on. It is unthinkable for the Federal Government to come into the city of Chicago or into my State in the light of the fact that we have stringent and strong antigambling laws, and by this proposed legislation to circumvent our laws. I am opposed to the Federal Government coming in and encouraging gambling in the State of Illinois. In the late thirties the Legislature of Illinois attempted to do exactly what you are trying to do here; they passed a law that licensed "bookies," which is the common term applied to these people who take bets. In other words they said: "You pay your license fee and then you can bet all you want to." Then the Governor of the State consulted the attorney general and the attorney general did not go into any long-winded dissertation on why the legislature could not do it. He said: "Governor, just read the constitution, and then read the statute passed in pursuance thereof. Gambling in our State in all of its ramifications is illegal under the constitution and you cannot give substance, sanction, or countenance to a business that is inherently illegal."

That is what you are trying to do here. Why should you encourage a man to do something illegal by giving him a license? I am reading from the bill because I am sure most Members have not read it; they have been more immersed and absorbed and interested in other phases of this bill and they evidently have not given thought to the ridiculous side of it. Listen to this provision:

Every person liable for special tax under this subchapter shall place and keep con-

spicuously in his principal place of business the stamp denoting the payment of such special tax; except that if he has no such place of business, he shall keep such stamp on his person, and exhibit it, upon request, to any officer or employee of the Bureau of Internal Revenue.

Now the penalty:

(a) Failure to pay tax: Any person who does any act which makes him liable for special tax under this subchapter, without having paid such tax, shall, besides being liable to the payment of the tax, be fined not less than \$1,000 and not more than \$5,000.

Before I leave the well of the House I would be very pleased to have any one of the distinguished gentlemen on this committee tell me how we are going to enforce this law in my State. How are you going to make it applicable, how are you going to make it work in any way, shape, or manner? If you can find a solution, I think it will have some persuasion upon my final action relative to supporting this measure, but as long as this fictitious and specious paragraph is in this bill I could not vote for it, because I cannot go back to my people and tell them that I openly countenanced the right of the Federal Government to take over the police powers of my State.

Mr. COOPER. Mr. Chairman, will the gentleman yield?

Mr. JONAS. I yield to the gentleman from Tennessee.

Mr. COOPER. It should be borne in mind that most of those provisions to which the gentleman has invited attention have been in the law for years and years and apply to all present occupational taxes.

Mr. JONAS. Under what law have they been for years and years? What law says that you have the right to come into the State of Illinois and by indirection legalize gambling when our laws say that gambling is illegal?

Mr. COOPER. It applies with respect to slot machines and all occupational taxes.

Mr. JONAS. That law was passed last year, and that is just as fictitious and specious as this bill is here.

Mr. YATES. Mr. Chairman, will the gentleman yield?

Mr. JONAS. I yield to the gentleman from Illinois.

Mr. YATES. I was going to comment and refer to a list in Chicago newspapers of those who now own and operate slot machines under the Federal tax laws. The gentleman has referred to that.

Mr. JONAS. I hope the gentleman will give that list to the sheriff of Cook County.

Mr. YATES. I assumed that is what the gentleman had in mind.

The CHAIRMAN. The time of the gentleman from Illinois has expired.

Mr. REED of New York. Mr. Chairman, I yield myself 1 minute.

ENFORCEMENT OF THE WAGERING TAX

Mr. Chairman, it is understood that the Bureau of Internal Revenue, as a part of its racket investigations, has already been compiling lists of bookmakers and other gamblers throughout the country. These lists are being built up

and constantly revised in cooperation with local law-enforcement agencies. Thus, the Bureau now has on hand a constantly growing mass of information which will be of great assistance in identifying the most important of the individuals who will be liable to the wagering tax. Therefore, the first big step in the enforcement of this new tax—the identification of the big taxpayers—can be substantially accomplished without any undue strain upon the existing administrative organization. Identification of the small-fry will, of course, take longer but many of them can be expected to fall into line once the big gamblers are forced to comply.

The registration requirements of this tax should prove of material assistance to the racket squad investigations which are an outgrowth of the recommendations of the Senate Crime Committee. Furthermore, the new tax on wagers should make possible a more accurate audit of gamblers' income tax returns. By knowing the gross amount of wagers placed with a bookmaker, a rough, but fairly accurate, estimate can be made of his gross income. Likewise, present income tax information will make possible a fairly close estimate of the amount of wagers which the bookmaker has received and which are subject to the wagering tax. Therefore, the present income tax and the new wagering tax will complement each other and the existence of these two taxes side by side should improve taxpayer compliance throughout this area.

In areas where gambling is a monopoly in the hands of one group, enforcement should prove relatively easy because of the small number of taxpayers it will be necessary to deal with. In other areas, bookmaking and lottery operation is a highly competitive business, and once the wagering tax is successfully applied to a few of the larger operators in these areas these individuals can be expected to seek similar compliance from their competitors. Thus, conditions within the gambling business itself may bring about a measure of self-enforcement.

Finally, while most bookmakers and lottery operators are engaged in violating State and local laws, very many of them undoubtedly comply substantially with the Federal tax laws. It would seem reasonable to suppose that under the new tax there will be similar areas of voluntary compliance. In other cases, a few examples of successful prosecution should go far to encourage compliance. In this connection it should be noted that the bill provides criminal penalties for noncompliance ranging up to 5 years' imprisonment.

In conclusion, it appears probable that substantial compliance with the new wagering tax can be achieved within the existing framework of the Bureau's organizational and procedural machinery.

(Mr. REED of New York asked and was given permission to revise and extend his remarks.)

Mr. REED of New York. Mr. Chairman, I yield such time as he desires to the gentleman from New Jersey [Mr. WOLVERTON].

Mr. WOLVERTON. Mr. Chairman, I am opposed to the tax bill now before us for three reasons:

First, I am of the opinion that the Congress should first give consideration to reducing the expenses of government before passing an increased tax bill that will further burden our people. The passage of this bill will provide an additional \$7,200,000,000 to be spent by a reckless and wasteful administration.

Second, The administration claims the increased revenue received this fiscal year, as a result of two other tax bills passed during the year, will provide a surplus at the close of this fiscal year, June 30, 1951, of three to four billion dollars. Another basis of figuring would show upward of \$7,000,000,000. Of course, any such surplus is hard to believe, but in any event, if any substantial surplus should exist, then why should this third bill be passed further increasing Federal taxes by approximately \$7,200,000,000.

Third, The bill was brought before the House under a gag rule that made it impossible for any Member to even offer an amendment for the consideration of the House.

REDUCE EXPENDITURES OF GOVERNMENT BEFORE INCREASING TAX BURDEN

The ever-increasing cost of our Federal Government challenges the serious consideration of every thoughtful citizen. This, together with an inefficient administration of the price-control system, can be chargeable in large measure for the inflationary prices against which our people cry out for relief. To further increase the amount of take from our taxpayers, as this tax bill provides, will not stop the inflationary spiral, but, will more likely add to it by the extent to which new revenue is provided for a spendthrift and wasteful administration.

No effort has been made by the present administration to eliminate useless jobs or to eliminate or curtail unnecessary programs or projects. Our Federal bureaucracy has expanded to such an extent, and jobs have been handed out with such a lavish hand in the years following World War II that the taxpayer now finds himself supporting the salaries of 2,410,000 Government employees. This is an increase of nearly 500,000 over this time last year.

Consider the National Production Authority which came into being only a few months ago, but which already has a payroll of more than 4,000. And, consider the Office of Price Stabilization. Although Michael DiSalle was appointed less than 6 months ago, he already has 6,700 employees and hopes to add another 28,000 before another year rolls around. If something worth while was accomplished there would not be so much objection, but, nothing that amounts to anything has yet been done for our people. Much more could be said with reference to this and other departments of government. The administration, however, has nothing to say about reducing expenses, but, continually asks for more and more revenue from the taxpayers to carry on its policy of tax and spend—tax and spend. This will be the third bill increasing taxes to be

passed by the administration in this fiscal year. The time has come to call a halt. This bill should not be passed until a real job is done in eliminating wasteful expenditures and cutting down the cost of government.

SURPLUS FOR PRESENT FISCAL YEAR IS CLAIMED BY ADMINISTRATION; IF SO, THEN WHY ADDITIONAL TAXES?

It is claimed by administration sources that there will be a surplus of three to four billion dollars at the close of the present fiscal year, June 30, 1951. This may or may not be true. Some enthusiastic administration spokesmen even suggest as much as a \$7,000,000,000 surplus. I am of the opinion that this latter figure can only be arrived at by a system of bookkeeping that ignores pertinent existing facts. But, even if it be true that the surplus will reach three or four billion dollars, then why is it necessary to tax our people another \$7,200,000,000 as the bill seeks to do?

This bill is the third tax bill to be put by the administration before Congress in the past year. It raises our tax burden to the highest point that has ever existed in our Government throughout our entire history as a nation. This, together with State and local taxes, now take about one-third of our national income. How long can such a tax burden be carried by our people? There is a limit to what they can bear. Unfortunately, the present administration does

not seem to think that such is the case. It is my opinion that the time has come to call a halt on extravagant spending by the Federal Government and stop continually increasing the tax burden of our people.

TAX COLLECTIONS BY TRUMAN ADMINISTRATION GREATER THAN ALL PREVIOUS ADMINISTRATIONS TAKEN TOGETHER SINCE 1789

Mr. Chairman, we are all aware of the tremendous expenditures of the present administration, but I am certain that the average citizen does not realize how great the expenditures really are. An article by Paul O. Peters, editor of the News Bulletin, Washington, D. C., dated June 22, 1951, forcibly and accurately makes the situation so plain that it challenges the attention of every thoughtful citizen. In accordance with the consent granted, I make the article a part of my remarks. It reads as follows:

TAX COLLECTIONS BY TRUMAN ADMINISTRATION GREATER THAN ALL PREVIOUS ADMINISTRATIONS SINCE 1789

With the enactment of the pending new revenue bill, H. R. 4473, the administration of President Harry S. Truman will have the chance in but seven fiscal years to have collected more revenues from the people of the United States in various ways than all previous administrations were able to collect from the establishment of the Republic in 1789 down through the years to June 30, 1945.

A study of the fiscal records of the Government indicates that total receipts up to June 30, 1945, were reported as follows:

Period	Receipts	Expenditures	Public debt (millions)
All Presidents, Washington to Roosevelt, 144½ years, 1789 to 1933.....	\$91, 586, 076, 130	\$112, 203, 367, 065	\$22, 538. 6
Administration of Roosevelt, 12 years, fiscal 1934-45.....	165, 760, 825, 357	372, 235, 200, 271	258, 000. 0
Total receipts.....	257, 346, 901, 487		

The table illustrates the fact that in 156½ years the total receipts of the Federal Treasury amounted to \$257,346,901,487. For comparison, there is submitted a table showing the total revenue receipts and the net budgetary receipts for the fiscal years commencing July 1, 1945, with actual reported collections through June 15, 1951, and budget estimates for fiscal 1952. The table follows:

Fiscal year	Total receipts by Treasury	Net receipts by Treasury
1946.....	\$44, 238, 590, 336	\$43, 037, 798, 808
1947.....	44, 702, 703, 321	43, 258, 833, 189
1948.....	46, 098, 807, 313	44, 745, 542, 077
1949.....	42, 773, 505, 520	38, 245, 667, 810
1950.....	41, 310, 627, 851	37, 044, 733, 557
1951 ¹	47, 683, 725, 909	42, 779, 650, 597
1952 ²	55, 100, 000, 000	55, 100, 000, 000
Total.....	321, 907, 960, 250	304, 212, 226, 038

¹ Actual collections to June 15, 1951, from Treasury statement.

² Budget estimate contained in President's message to Congress.

PAUL O. PETERS.

The above figures showing the amount of revenue collected by imposition of taxes under the present administration will leave no doubt that the time has come to stop taxing and do some economizing.

GAG RULE PREVENTS AMENDMENTS

Mr. Chairman, there has not, nor will there be any subject of legislation before the present session of Congress that will

more vitally effect all classes of citizens, than the tax bill now under consideration. Notwithstanding this fact the bill is brought before us for consideration under a closed rule that prevents any Member from offering even one amendment to it.

This gag rule adopted by the Democratic majority is indefensible. It violates the fundamental principle of a representative form of government. It is inconceivable to the average citizen that such a condition could exist, or, that any responsible political party would use its power to prevent representatives of the people in the House of Representatives from fully performing their duties and obligations to the people they represent. Yet, that is just what the Democratic Party in the House has done by its action in this matter.

How can there be true representative government when the Representatives of the people are denied this basic right of offering, for the consideration of the House, amendments to the pending bill. It has the characteristics of totalitarianism and dictatorship. It is based on the theory that the ruling class or party knows best. It precludes the membership from drawing a distinction between what is good and what is bad in the provisions of the bill. The arrogance of the rule is found in the expression commonly

used of "take it or leave it." This is not proper procedure for a representative body such as the Congress. It is a violation of the very principles of our American form of government. It deserves the condemnation of all thoughtful citizens.

As I recognize the injustices in many of the provisions of the bill, the hardships that it will entail on many of our low-income groups, who already are burdened with Federal, State, and local taxes, and, further recognizing the difficulty that they already have in meeting the high cost of living, in supporting their families and educating their children, I just cannot take the bill in the form presented to us. As the only choice I have under the rule is to take or leave it, then, I choose to leave it. I do so with the hope that the Senate will be more realistic and more responsive to the will of our people.

(Mr. WOLVERTON asked and was given permission to revise and extend his remarks.)

Mr. REED of New York. Mr. Chairman, I yield 7 minutes to the gentleman from Illinois [Mr. ARENDS].

Mr. ARENDS. Mr. Chairman, I do not labor under any illusion that any remarks of mine on this pending tax bill will change any votes. There is little to be added to what has already been said, pro and con, during these 2 days of debate. I suppose every Member has decided by now how he intends to vote this afternoon. If perchance there should be any undecided, I wish I could somehow be persuasive with him, that this bill should be sent back to committee.

We have no other choice than to recommit this bill. With all due respect to the Ways and Means Committee, and with due regard to our additional revenue needs, the committee has presented us with a bill which, in my considered judgment, is an economic monstrosity. The rule precludes our amending it in any particular. We are in the unfortunate position of having to reject it in its entirety.

Of course, it is impossible to write a tax bill that would be satisfactory to everyone in every particular. For that matter, no one likes taxes of any kind. But I doubt if any tax bill could be so unsatisfactory in so many particulars as the one we presently have before us.

This bill violates every acceptable principle for sound revenue legislation for a free competitive economy. It does not distribute the tax burden fairly and equitably. It discriminates against certain individuals and allows special tax privileges to others, even though these same individuals are in exactly the same economic status. It penalizes small business and discourages growth. The bill as obviously written without regard to our actual revenue needs and with no consideration to the long-range effect of these proposed new taxes on our national economy.

During the course of the debate much has been said about the importance of balancing our national budget and the necessity of raising additional revenue.

With that premise I take no issue. In fact, I pause to welcome this new-found interest in a balanced budget presently being shown by my friends on the other side of the aisle. I regret they do not show this same interest in the balanced budget when we seek to cut the various nondefense items in the appropriation bills. The issue is not simply whether the budget should be balanced, but, more important, at what level should it be balanced.

It is my view that before we write a tax bill to meet our revenue needs we should first determine what those needs will be. The Congress has yet to adopt the various appropriation bills for the next fiscal year. In fact, only one regular departmental appropriation bill has been cleared by both the House and Senate at this time, and it may well be that our economy efforts will make our revenue requirements less than anticipated. That is my hope.

In other words, before we concentrate on the revenue side of the budget, adding more to the people's tax load, I believe we should attack the expenditures side of the budget to lighten any possible additional tax burden necessary to be imposed.

It is my firm conviction that our first line of defense, in the fullest sense of the word, is our fiscal stability. Our most dangerous enemy today is the growing inflation stemming from our enormous public debt and successive years of deficit financing. Our people are already paying dearly, in high prices and in taxes, for the excessive spending policy followed by our Government. The day of reckoning is now at hand.

I am prepared to vote for additional taxes. We find ourselves in a fiscal situation where it is more or less imperative that additional revenue be raised. My people understand this. When I speak of the necessity of balancing the budget and placing our economy on a sound fiscal basis I do so with the utmost good faith.

But I frankly question the good faith of the administration in that respect. Notwithstanding the extraordinary defense demands, President Truman submitted to us a budget of around \$72,000,000,000 that actually increased Government spending for nondefense items. And he dared us to cut it. The administration has not only failed to cooperate with us in cutting the cost of Government, it has actually resisted our efforts.

I question the good faith of the administration in presenting this bill to us as an anti-inflation measure when, at the same time, the President and his horde of bureaucrats continue to advocate Government spending for nonessential items. I question their good faith when they continue to advocate various new programs for still more Government spending. I agree that properly imposed taxes would serve as a brake on inflation, and I believe it is a brake that must be applied for our survival. But it is pure nonsense to think that new taxes will be anti-inflationary, however wisely imposed, if the Govern-

ment is to continue its policy of reckless spending.

The bill we have before us is by no means an anti-inflation measure. On the contrary, I am convinced that this proposed bill will of itself contribute to inflation. Every recognized economist and every recognized tax expert will tell you that an excess-profits tax can be one of the most inflationary types of taxes that could be imposed. The distinguished chairman of the Senate Finance Committee, Senator WALTER F. GEORGE, of Georgia, has frequently referred to the inflationary character of excess-profits taxes as encouraging waste and retarding expansion. This type of tax is not what it is popularly known to be. It rests on an arbitrary statutory definition of what constitutes excess profits, and as such favors big business and strangles little business. Companies with high earning base periods or with liberal capital investment have an advantage over the new concerns. The bill before us extends this tax and raises the existing ceiling to the detriment of small business concerns, which are the backbone of the country.

This particular tax sets arbitrary ceilings beyond which economic growth can be only slow and feeble. As such, it discourages rather than encourages expansion and increased production.

When the excess-profits tax was repealed in the Seventy-ninth Congress, the Senate Finance Committee stated in its report:

The primary reason for advocating the repeal of the excess-profits tax as of the first of 1946 is the belief that this tax is a major obstacle in the way of reconversion and expansion of business.

Moreover, we learned from experience during the last war that the excess-profits tax tended to make management lax in its control of costs and materials. In the end the Government and the average taxpayer paid the costs. There is no question but that corporate taxes should be increased in order to provide the additional revenue. But in this bill we have a proposed method of increasing them that will actually contribute to inflation.

There are a number of other features of this bill that I would like to discuss, but time prevents. I have great respect for the members of the Ways and Means Committee, but I am frank to say, as I said at the outset, the bill they have presented to us is a monstrosity. I hope it will be recommitted and that the committee will report to us a bill that rests on sound principles and not simply a bill raising money without regard to its practical effects and its fairness.

(Mr. ARENDS asked and was given permission to revise and extend his remarks.)

Mr. DOUGHTON. Mr. Speaker, I yield such time as he may desire to the gentleman from Michigan [Mr. MACHROWICZ].

Mr. MACHROWICZ. Mr. Chairman, the Members of this Congress are called upon today to make a grave and important decision in casting their vote on the

pending revenue bill. Their decision will have a profound effect on the destiny of this country for the coming years.

I have carefully studied the provisions of the proposed bill. There are many provisions which I dislike and oppose.

Taxation should, in my opinion, be based on the ability to pay. The increase in excise taxes is unfair, because it shifts the tax burden on the shoulders of the consumer who constitutes the tremendously large group, most of which is in the class least able to carry the tax load.

I have introduced a bill which would increase the exemption on the individual taxpayer, and thus remove from tax liability a large group of those in the lowest-income bracket, who have no ability to shoulder the tax burden.

The committee has seen fit to disregard this and similar bills introduced by various Members of this House.

The bill before us today has some worth-while provisions, one of them being the offset feature when a home is sold at a profit and another is purchased in its place at an inflated price.

I realize that this is probably the best bill that could be obtained from the Ways and Means Committee at present, and accordingly, by necessity, I am voting for it. I shall, however, continue to advocate and hope for legislation which will more fairly distribute the tax burden upon those who can afford to pay it.

(Mr. MACHROWICZ asked and was given permission to revise and extend his remarks.)

Mr. DOUGHTON. Mr. Chairman, I yield 10 minutes to the gentleman from Utah [Mr. GRANGER].

Mr. HOLIFIELD. Mr. Chairman, will the gentleman yield?

Mr. GRANGER. I yield to the gentleman from California.

Mr. HOLIFIELD. I have noticed in listening to these speeches from the other side of the aisle that constant reference is made to the fact that this revenue bill has been brought in under a so-called gag rule. I have been in this Congress for 10 years, including the time of the Eightieth Congress. I know that during that time no revenue bill was ever brought in with an open rule or a rule that would allow any type of amendment. I have been told on good authority that that has been the situation for 20 years. I wonder why constant reference to this gag rule is made in these speeches. Is it for partisan political advantage or is it an indication of an irregular procedure on the part of the Committee on Ways and Means? What is the meaning of this constant reiteration of the fact that this has been brought in under a rule which does not provide for amendment?

Mr. GRANGER. I will say to the gentleman that, to my knowledge, bills of this kind have generally been brought in under this same sort of rule. As I remember it, in the Eightieth Congress there were some people on our side who were making the same contentions that are being made on the other side today, that this was a gag rule. It is a rule that, as the gentleman from California

said, has been generally applied, and I think it is a rule that must be applied, in dealing with subjects of this kind.

Mr. HOLIFIELD. As a matter of practical legislative action, we know it would be impossible to allow amendments to be offered to the tax bill, to cut it all to pieces and throw it out of adjustment.

Mr. GRANGER. Let me say in that connection to the gentleman from California that I am just a new member on the Committee on Ways and Means, but I have been on other committees in this Congress. I have sat there and listened to the testimony and heard the distinguished gentlemen on the committee argue all the points of this bill. I want to say here without fear of contradiction that we have on that committee on either side of the aisle men whose judgment and whose veracity and knowledge of tax matters this Congress can trust. I especially say that about the distinguished chairman of the committee, a great American, a man who we all know is gifted with great physical endowments, a man who despite his age has gone through all these hearings with an alert mind. No one can accuse him of advocating or being a party to anything that even smells of or looks toward socialism, communism, or anything that is not entirely American.

Mr. HOLIFIELD. I agree with my friend 100 percent.

May I refer to the remarks that were just made by my good friend from Illinois [Mr. ARENDS], the minority whip, in which he conceded his own good faith in making his argument but cast an imputation of lack of good faith upon everyone that had anything to do with this proposed tax bill from the administration on down. I think it is hardly fitting that a charge of bad faith be made in the producing of a bill which has required 4½ months of the committee's time. I am perfectly willing to concede the motive of good faith on the part of every member of the Committee on Ways and Means. I shall vote for or against the bill upon the basis of the merit of the bill and not upon any imputation of bad faith.

Mr. GRANGER. I think the gentleman's statement is well taken, and I agree with it.

Mr. McCORMACK. Mr. Chairman, will the gentleman yield?

Mr. GRANGER. I yield.

Mr. McCORMACK. I will state for the record that in the Eightieth Congress the leadership on the Democratic side did not oppose the closed rule. We made no arguments about the gag rule and as I remember no Democratic member of the Committee on Ways and Means at that time made any such argument.

Mr. GRANGER. I thank the gentleman.

Mr. REED of New York. Mr. Chairman, will the gentleman yield?

Mr. GRANGER. I yield.

Mr. REED of New York. So far as the minority is concerned, we went before the Committee on Rules and vigorously urged the adoption of a closed rule.

Mr. GRANGER. That is true.

Mr. McCORMACK. Mr. Chairman, none of the observations relate to the

gentleman from New York, or other Members, except to those Members who have made arguments about it.

Mr. MILLS. Mr. Chairman, will the gentleman yield?

Mr. GRANGER. I yield.

Mr. MILLS. I think every Democrat on the Committee on Ways and Means appreciates the splendid support which was given by the Republican Members of the Committee on Ways and Means before the Committee on Rules. All those who appeared before the committee said they favored the closed rule which was requested.

Mr. TACKETT. Mr. Chairman, will the gentleman yield?

Mr. GRANGER. I yield.

Mr. TACKETT. Whether the Democratic leadership or the Republican leadership wanted a gag rule, what in the world has that to do with the merits of this bill, which would require about half of the argument that has been made on it, as to who wanted and who did not want a gag rule. I would like to hear something about the bill.

Mr. GRANGER. I will get back to some of the things that I had in mind, I will say to the gentleman from Arkansas.

Mr. Chairman, the provisions of the pending bill have been covered in considerable detail by the senior members of the Committee on Ways and Means who have spoken before me. I shall not presume to try to repeat what they have said. All that I desire to do is to observe that never have I seen such complex problems as those involving the application of Federal taxation to our diversified economy with all the range of customs and State and local laws that have to be taken into account. Nor have I seen a more earnest group of men sit down to study and to try to understand and solve the many problems that must inevitably arise.

Rather than try to repeat what has already been said, I think it might be more appropriate for me to try to answer some of the questions that have been raised during this debate as to the reasons for some of the basic decisions underlying this bill. First, I believe that there is no serious question but that we shall need, during the years immediately ahead, at least the \$7,000,000,000 of additional revenue which this bill will provide. Despite all the talk of eliminating nonessential Federal expenditures, which I steadfastly support, and the strict review of the military and foreign aid budgets, the plain truth is that we all know that we cannot expect to cut the President's budget by more than \$4,000,000,000 or \$5,000,000,000 at the outside. Even with such a substantial reduction, if inflationary deficit financing is to be avoided the additional \$7,000,000,000 will be required.

The only real issue, therefore, is whether the Committee on Ways and Means has levied this additional tax burden in the wisest and most equitable manner. Questions have been raised about various sections of the bill, and I shall try to give our reasons for the action taken on each one:

First, why did we decide upon a 12½-percent increase in the present tax lia-

bility of individuals all across the board, instead of upon some one of perhaps a dozen alternatives that were presented to the committee?

Now if this question were to be answered by each member of the Committee on Ways and Means, there might be a variety of answers received. But adding them all together, I think that these were the factors which appealed to us:

In the first place, the 12½-percent increase is simple and easily understood. Perhaps because of the fine educational job done by our Republican friends when they were in control of the Eightieth Congress the flat percentage across-the-board type of tax has certain appeals. The fact that it resulted in a greater tax benefit to the higher income brackets did not deter them from using this method of tax reduction. Now, however, when it takes a bit more of the take-home pay of the upper bracket taxpayer than of the hard-pressed people at the bottom, they scream "bloody socialism."

I think it is clear enough to most people that what is fair on the down grade ought to be equally fair when we start up hill.

Under existing law taxpayers under \$5,000 bear approximately 37 percent of the total tax burden. Even under the committee bill, these low-income taxpayers will pay 38 percent of the tax burden. From these data which appear on page 12 of the committee report, I do not understand how anyone can seriously contend that the 12½-percent across-the-board increase is unfair to the income groups above \$5,000.

Second, why are we giving the relief to heads of families at a time when we are raising revenue?

Today there are about 800,000 single persons in both community-property and common-law States who maintain a family home for themselves and one or more close relatives. A married man and his wife pay substantially lower tax than a single individual by reason of the income-splitting provision.

This may result in a very real hardship when a husband loses a wife, or a wife loses a husband, and still tries to keep the family together in the same house. The family expenses may actually have increased, yet under existing law the tax burden would be higher. Therefore, in order to take into account the additional obligations of a head of a household over a single person without such responsibilities, the committee decided to give approximately one-half the benefit of income-splitting to a head of a household as is received by a married couple under present law.

Third, why did we combine an excess-profits increase with the corporate normal tax increase in raising the additional revenue from corporations?

The minority report on this point is extremely critical. It is not clear just what alternatives they would propose and we can only conclude that they could not agree among themselves, else alternative tax proposals for both individuals and corporations would have been recommended in their report. However, I seem to recall that when the excess-profits tax bill was under consideration

in the last Congress a Republican motion to recommit was offered to combine a simple increase in the ordinary tax on corporations with a lighter excess-profits tax than that reported by the Committee on Ways and Means. At that time the Republican members of the Committee on Ways and Means and those Members of the House who supported them urged that the additional revenue from corporations be raised by combining an increase in the normal tax with an increase in the excess-profits tax. Now, when the Democratic members of the Committee on Ways and Means follow this same procedure in raising revenue from corporations under this bill, they scream in protest.

Fourth, why did we limit the number of exemptions in the case of related corporations?

Evidence was presented to our committee in executive session that a number of corporations were splitting up and incorporating as many branches of their businesses as possible in order to obtain for each separate branch the \$25,000 surtax exemption and the \$25,000 minimum excess profits tax credit. This practice now gives the chain stores who are indulging in it a tremendous advantage over other corporations which are continuing to operate as a single corporation through branch retail outlets. In one case which the Treasury Department lost in the Tax Court a chain of shoe stores operating 60 retail stores split up 49 of these stores into separate corporations. Under this arrangement the corporate surtax exemption would be \$1,250,000 instead of the \$25,000 from operating the chain as a single corporation. Corresponding advantages are available under the minimum excess profits tax credit.

Mr. Chairman, with the necessity for the higher tax rates imposed under this bill, we just could not tolerate such obvious tax avoidance schemes as this. Although taxes will have to be high, we at least can do what we can to make them fair.

Fifth, What is the purpose of the provision on collapsible corporations?

Another loophole closed by the pending bill is the practice of setting up a collapsible corporation for the purpose of converting profits from the sales of ordinary inventory and stock in trade into a capital gain. As explained to the committee in executive session, this technique was used quite commonly in connection with whisky. Under one series of transactions the tax savings from this type of operation from converting ordinary income into long-term capital gains amounted to more than \$6,000,000. The pending bill would make this impossible.

Sixth, Why do we need statutory clarification on sales of livestock?

For several years there has been considerable confusion regarding the tax treatment of sales of livestock used for breeding, dairy, or draft purposes. The Internal Revenue Code clearly provides that depreciable property used in a trade or business, if sold at a profit, shall be taxed as a long-term capital gain if held for more than 6 months. Our tax col-

lectors, however, have never been able to understand that cattle, sheep, hogs, and horses used by a farmer for breeding, dairy, or draft purposes are just as much the tools and machinery of farming as are the lathes, tools, and dies of a manufacturer. So they took it to court and the Tax Court, the Federal district courts and the circuit courts of appeals decided the obvious fact that breeding, dairy, and draft animals are depreciable property used in the trade or business of the taxpayer-farmer. Since then the Treasury Department, until very recently, has been quite reluctant to follow the court decisions in administering the tax law. Also there is much uncertainty. The committee decided to include in this bill a provision to save the farmers from further harassment and to lay down a clear and fair rule. It really gives the farmers no more than they are entitled to already, but it will make the law easier to administer.

Mr. Chairman, these are some of the highlights of the bill and I have tried to explain the principal considerations as I recall them which led the committee to take these actions.

Mr. REED of New York. Mr. Chairman, I yield such time as he may desire to the gentleman from Massachusetts [Mr. HESELTON].

Mr. HESELTON. Mr. Chairman, in my opinion, this House faces an almost impossible task this afternoon.

We have before us a complex revenue proposal of 153 pages.

The Ways and Means Committee held public hearings for 2 months taking testimony from more than 200 witnesses. It then held executive sessions for approximately 2½ months more. The hearings of 2,884 pages, the committee report of 152 pages and the bill were not available until Tuesday. Yet other Members of the House are forced to try to reach considered conclusions in only 3 days after an attempt to study the hearings, the report, and the bill, and to follow the general debate.

Beyond this, we are given no opportunity to present or discuss any amendments because of the gag rule. Under all these circumstances, I have come to the conclusion that the net effect of this bill, if enacted in its present form, would be extremely unfortunate.

I recognize the necessity of providing sufficient revenue to finance the defense effort and essential nondefense activities. I think there are few taxpayers who would not concede that.

But I am greatly concerned about the stubborn attitude of the administration in refusing to admit that there is any possibility of reducing nonessential expenditures by one cent. Its vigorous and continuous efforts to defeat all suggestions of such reductions convicts it of arrogant indifference to the plight of the American taxpayers whose hard-earned and prudently saved money furnishes the means of conducting all Federal operations. That attitude also convicts the administration of attempted deception in its alleged concern about the effect of the sharply increasing cost of living which is straining the budgets of the American consumers. The ad-

ministration knows, or certainly should know, that heavy expenditures by the Federal Government constitute one of the greatest single factors in that increase, both directly and indirectly.

I doubt if a single Member of Congress would challenge the fact that there is waste in practically all, if not all, the current activities in the executive department.

As but one example, I want to make as a part of this record a report on such a situation in connection with the food purchasing program of the Department of Agriculture. I have been studying these operations for over a year and have been doing everything within my power to focus attention upon them and to obtain action to eliminate them, but with next to no success.

Recently, I completed a partial study of the report published for the period ending April 30.

When I found that in the first 10 months of this fiscal year losses on the disposition of but nine food commodities had accumulated in the amount of \$263,175,628 and that this was 30.6 percent of the losses sustained in the disposition of these commodities from October 17, 1933, I wrote to the President calling his attention to these disturbing facts and urged that he take whatever steps are necessary to bring about an immediate review of this situation and the elimination of future expenditures wherever that appears proper. As of this moment, I have received no acknowledgment of that letter and I confess that I have no confidence whatever that I will receive any such acknowledgment or that any such action will be taken by him. My letter is as follows:

The PRESIDENT,

The White House, Washington, D. C.

DEAR MR. PRESIDENT: During your radio speech last Thursday evening you said: "We all know what inflation can do to people. It can take their earnings away from them. It can take the food out of their mouths."

I am sure that you will agree that it is equally true that unnecessary and unjustified activities and expenditures by the Federal Government have the same evil results.

As you know, I have urged for many months that attention should be given to the food purchasing activities of the Department of Agriculture. I submit that these activities should not be continued unless they can be fully justified.

Recently the report for the period ending April 30 has been published. It contains disclosures which are startling.

Between June 30, 1950, and April 30, 1951, purchases were made of 5,937,597,528 pounds of nine food commodities—butter, cheese, dried milk, dried eggs, dried peas, dried beans, potatoes, grain sorghum, and peanuts. In that period the Department took losses on disposition of these commodities in the amount of \$263,175,628.

It paid for carrying charges alone \$32,505,130.

All this has happened after American men were sent into Korea.

It happened while American housewives have been struggling to meet the increasing prices for food. They have seen prices rise since June 30, 1950, to today in approximately the following amounts: butter from 71.1 cents to 89 cents per pound, cheese from 51.1 cents to 70 cents per pound, milk from 18.2 cents to 23 cents per quart, eggs from

51.6 cents to 79 cents a dozen, dried beans from 14.9 cents to 19 cents a pound.

It happened while the American taxpayers were paying the first increased tax bill.

It is still happening when another substantial tax increase seems certain.

Another fact disclosed by this report seems to me to be most significant. From October 17, 1933, through April 30, 1951, the losses incurred in the disposition of these nine commodities amounted to \$858,709,441. Consequently the loss in the first 10 months of the current fiscal year of \$263,175,628 is 30.6 percent of the losses sustained in a period of nearly 18 years.

The total losses for the price-support program during that 18-year period are stated to be \$912,575,612. Therefore, the losses taken on these nine commodities constitute 94.1 percent of the losses incurred in the whole price-support program.

I do not know what has been done in this field since April 30, nor can I find out. However, on April 30 there was on hand 2,609,413,987 pounds of these nine commodities.

I think no one can dispute the economic fact that when the Federal Government buys substantial quantities of food commodities in competition with the American housewife the inevitable result is a decrease in available supplies in the open market and higher prices.

Later in your radio speech you said: "Government spending for defense will increase very fast in the next few months. And the more money the Government spends on defense the greater the danger of rising prices."

It certainly is a matter of major importance that Government spending in nondefense activities creates just as much danger of rising prices.

I think that these facts point up the imperative necessity for a full disclosure of all the facts in connection with this program. I urge that you take whatever steps are necessary to bring about an immediate review of this situation and the elimination of future expenditures wherever that appears proper.

I am enclosing the data I have taken from the report in connection with the losses.

Sincerely yours,

JOHN W. HESELTON.

Figures from Commodity Credit Corporation report of Apr. 30, 1951

LOSS ON DISPOSITION		
Commodity	Fiscal 1951 through Apr. 30	Oct. 17, 1933 through Apr. 30, 1951
Butter.....	\$43,088,987	\$47,200,848
Cheese.....	24,030,684	25,061,762
Dried milk.....	38,763,731	52,830,041
Dried eggs.....	61,470,986	141,503,049
Dried peas.....	219,153	880,177
Dried beans.....	9,403,986	10,459,915
Potatoes.....	54,220,587	468,721,246
Grain sorghum.....	20,488,277	34,145,806
Peanuts.....	11,489,237	77,906,597
Total.....	263,175,628	858,709,441

In terms of the committee report, it is shocking to realize that this single item of loss and waste is the equivalent of more than double all the taxes which will be paid for 1 year under this bill by those receiving the lowest taxable income, and that they are said to be 1,868,095 persons.

I submit that when such situations exist, quite apart from the merit or lack of merit of the tax bill as a whole, each of us has a definite right to use the only means available to us of making our protest entirely clear and of indicating beyond any possible question of doubt that a vote in favor of final passage is

not an endorsement of the reckless and indefensible fiscal policies of this administration.

Beyond this, however, there are features in this bill which are objectionable and most inequitable. They have been covered in the minority report and by members of the committee in general debate. Consequently, I shall refer briefly to only two of them.

The arbitrary, discriminatory, and unscientific provisions for excise taxes cannot be defended. Any system of taxation which imposes unequal burdens upon competitive elements in our economic world, or which gives unfair advantages, is contrary to every principle of sound taxation. This bill may seem to have taken an easy course by increasing a few such taxes while ignoring other possible taxes as to which certainly an equally tenable case could be presented. Enactment of this portion of the bill, in its present form, will surely bring results of far-reaching consequences which would affect the scores of thousands of patriotic Americans whose livelihood and ability to pay taxes would be jeopardized. I know that they would accept without complaint an equitable and fair tax burden. But this proposal is doubly unfair in view of the sharply increased individual and corporate taxes, and this threat to them as employers, employees, and those engaged in selling the products so taxed.

The new 20-percent withholding tax on dividends and other similar payments will, in part at least, bring about serious and most objectionable results. To deprive individuals who have no income-tax liability of what may be a substantial portion of their income for an uncertain period is a new and anything but a commendable step. Although it has been asserted in general debate that such withholding from institutions such as churches, hospitals, and other charitable institutions has been handled so as not to bring about such a serious effect upon them, I am by no means certain that the end result would be found to be at all satisfactory. In these days, when such income is so desperately needed by these institutions, I believe there could be the most serious kind of consequences.

I consider this unfair and improper, even though only one individual or one institution is so affected. It is shocking in view of the estimate that the amount of the withholding from these sources will run to \$100,000,000 annually, and it is unbelievably inequitable in view of the unchallenged statements that a substantial percentage of this improperly taxed revenue will never be returned because of the difficulty of filing and obtaining action upon proper claims for refund.

Surely the committee could easily and promptly correct these and any other deficiencies which have been pointed up during the course of debate.

But when other Members of this House are asked to put their unqualified stamp of approval on such a very controversial proposal, I believe they have a clear right to voice their objections and to seek such improvements in the bill by supporting a motion to recommit. In any event, with

the procedure under this gag rule leaving us no alternative, this is the only means given to us by which we can make it entirely clear that a vote for the bill, if recommitment fails, is definitely not an expression of approval of the administration's activities, nor any endorsement of the reckless, extravagant, and indefensible waste of the taxpayers' money. Rather, it will be merely a recognition that this is the first step in the legislative process in a field where it is universally considered action is necessary and because most of these increased funds should be devoted to the benefit of our Armed Forces in Korea and elsewhere. Such a vote is also subject to the clear right to take final action on the conference report, when probably, and I hope certainly, the inequities and the errors in this bill before us now will have been removed.

(Mr. HESELTON asked and was given permission to revise and extend his remarks.)

Mr. REED of New York. Mr. Chairman, I yield 5 minutes to the gentleman from Missouri [Mr. ARMSTRONG].

(Mr. ARMSTRONG asked and was given permission to revise and extend his remarks.)

Mr. ARMSTRONG. Mr. Chairman, on several occasions during the debate on this bill I have asked some pointed questions. I have not done so in a spirit of carping criticism, but of honest inquiry. The burden of my questioning has been as follows:

If this bill is passed, can we offer our constituents, the taxpayers who will have to dig down more deeply into their resources and wages to meet this increased load, any assurance or even any hope that this huge Government spending will ever be cut and their taxes reduced? Has this administration any plan, or have the administration leaders in this House any plan, looking toward a policy of retrenchment in spending? Will any such program be offered this Congress?

To all such questions, I have received no favorable answer. The distinguished and venerable chairman of the Ways and Means Committee, whom I greatly respect, answered that the responsibility for cutting expenses rested on the Appropriations Committee. I asked the distinguished gentleman from Pennsylvania [Mr. SIMPSON] if there was any liaison between the Appropriations Committee and the Ways and Means Committee, that would justify the hope that the Appropriations Committee leaders planned some program of reduction in Federal expenditures. The answer to that was "No." I have heard during this debate that it is up to the President of the United States to propose reductions and retrenchment. I have heard also that we can expect no such thing to happen. I have heard that it is the responsibility of Congress that taxes are so high and spending so astronomical. So apparently no one wants to assume any responsibility for the state of affairs, and no one wants to come forward with any program of relief for the taxpayers.

In his remarks before this committee yesterday, the distinguished minority leader of the Ways and Means Commit-

tee, the gentleman from New York [Mr. REED], mentioned that there are signs of revolt on the part of the taxpayers. Certainly that is true, when you reflect upon the progress being made by those who propose a constitutional amendment, limiting the power of the Federal Government in its spending of the income of the people. Specifically, this movement would call for the limitation of a percentage of the total national income that could be spent for all purposes of government, only with the exception of war declared in the constitutional manner by Congress. No one need ignore this as the work of cranks. That movement is ready to catch fire and sweep the country, for the people see no relief from either the executive branch of the Government or from Congress, from this steady confiscation of their resources.

Another movement will bear watching. It is the proposed formation of a national taxpayers' association, in order to bring actual political pressure to bear on Members of Congress and the Government generally, to cut expenses and save the taxpayers' money. If that organization ever gets going, it will be the biggest and most effective, and the most unselfish, lobby in existence.

Meantime, however, we of this Congress cannot escape our responsibility in any such fashion as passing the buck from one committee to another, or from us to the President and back again. Of course, the President of the United States could propose a program of drastic fiscal reform. Of course, he could lift some of the burden from the back of the long-suffering taxpayers. Of course, he could boil some of the fat out of his bloated budget. But no one expects him to—least of all his own party leaders in this House. Of course the Appropriations Committee could come up with a program of drastic reduction of nonessential spending. They could show how numerous agencies of the Government could be eliminated or consolidated with others or modified for economy and efficiency. But I doubt that any Member of the House expects that committee to do so. With full respect to what members of that committee have done in trimming a little here and a little there, the taxpayers of this country are not so foolish as to believe that they have done a real job of economy and cutting of expenses.

Now although neither the administration nor the administration leaders of this House seem likely to do this needed job, I as a minority Member cannot feel that I am relieved of my responsibility. I promised the people of my district when I was elected that I would not vote for higher taxes until I had made every effort, and until my party had made every effort, to cut out needless spending, to eliminate nonessential activities of Government, to cut nondefense appropriations to the bone. That has not been done. How then could I in good conscience vote for this bill?

It is my theory of representative government that under our two-party system, the majority party has the responsibility of leadership. But that does not relieve the minority party of continued

and critical scrutiny of the actions of the majority. I believe the minority should support the majority when it is right and oppose it when in the opinion of the minority it is wrong. I believe the minority party's criticisms should be constructive. If we oppose, then we should offer a better way. I cannot be content to vote against this bill without urging my party to go the needed step further: Let us come up with a program of retrenchment and economy of our own.

It is well known that many Members of this Congress have made definite suggestions for trimming out the needless expenditures of our Federal agencies. The distinguished senior Senator from Virginia, Mr. BYRD, has repeatedly offered a plan which he says will save the taxpayers of this country around \$7,500,000,000 annually—more than this whole tax bill would raise in additional revenue. Many public-spirited organizations have offered similar studies and suggestions. It was the intent of the Hoover Commission that its proposals would save several billions of dollars in present expenditures. What has happened to those proposals for saving money?

I suggest, I urge, the Republican Members of this House to join in working out a definite program to show just how many billions of dollars may be saved by economies that will not hurt a single necessary agency or functioning of Government. Let us challenge the majority leaders to show cause why it should not be adopted by this Congress. Let us invite all Members, of all parties, to follow our lead. Then, if we are defeated, we shall at least have done something constructive for our constituents and taxpayers generally. And our constituents, seeing the efforts we have made, and the efforts of our friends who will join us on the other side of the aisle, will rally to the cause they know is in their interests and for the welfare of the country.

Mr. REED of New York. Mr. Chairman, I yield 4 minutes to the gentleman from Idaho [Mr. WOOD].

Mr. WOOD of Idaho. Mr. Chairman, my principal reason for rising at this time is to take exception to one of the paragraphs proposed in this tax bill. I refer to the 20-percent withholding tax on interest on dividends and savings accounts. I have received more letters from my constituents in the last 3 or 4 weeks on that one particular thing than on anything else.

It is difficult for me to conceive of anything which would be more iniquitous and more foolish than a provision of this sort. Many of these older people in my district, with whom I have practiced in and among for 47 years have very small savings. Their savings were cut down very largely during the time of the depression and they have very little to go on and in all too many instances if the 20-percent withholding bite or pound of flesh is taken out of their paltry savings it will simply mean they will have to go whole hog on relief.

I cannot think of anything that I could oppose in any bill more vigorously than I do this treacherous provision.

Mr. COOPER. Mr. Chairman, will the gentleman yield?

Mr. WOOD of Idaho. I yield to the gentleman from Tennessee.

Mr. COOPER. Did I understand the gentleman correctly to say that he understood the withholding applied to bank deposits and interest on savings accounts?

Mr. WOOD of Idaho. On savings accounts; yes.

Mr. COOPER. The gentleman is in error on that. They are exempt. If the gentleman will turn to page 16 of the committee report, right in the middle of the page, he will find a paragraph setting out the exemptions that are provided in the bill. Bank deposits and savings accounts are specifically exempted.

Mr. WOOD of Idaho. I understand bank deposits were exempt but I did not understand interest on savings and dividends were exempt.

Mr. COOPER. They are exempt also.

Mr. WOOD of Idaho. I received four letters this morning from different persons on that very question.

Mr. CRAWFORD. Mr. Chairman, will the gentleman yield?

Mr. WOOD of Idaho. I yield to the gentleman from Michigan.

Mr. CRAWFORD. Will the gentleman from Tennessee or the gentleman from Arkansas point out the change that was made?

Mr. MILLS. The gentleman has in mind, and these people who are writing to him, the tentative action taken by the committee extending the provisions of the withholding to interest on savings accounts; but before the bill was reported the committee reconsidered its previous action and did, as the gentleman from Tennessee has just stated, exempt withholding on interest and savings and Government bonds, and so forth.

Mr. WOOD of Idaho. I thank the gentleman very much for his statement.

Mr. JENKINS. Mr. Chairman, will the gentleman yield?

Mr. WOOD of Idaho. I yield to the gentleman from Ohio.

Mr. JENKINS. The gentleman is absolutely right, however, that this nefarious practice does apply on dividends and many other things of that kind. It still applies and many people are writing me and what they are writing about is still in the bill. I refer particularly to dividends.

Mr. WOOD of Idaho. I thank the gentleman very much. That will relieve my mind a great deal in the consideration of this bill.

Mr. REED of New York. Mr. Chairman, I yield such time as he desires to the gentleman from Oregon [Mr. ANGELL].

(Mr. ANGELL asked and was given permission to revise and extend his remarks.)

WASTE AND DISHONESTY IN GOVERNMENT

Mr. ANGELL. Mr. Chairman, we have heard on the floor, and the press has been full in the last few days, of reports showing that in the conduct of national defense officials awarded contracts aggregating \$3,214,000 to two promoters who were jailbirds and who had no plant and no visible financial support and no experience in the manufacture of the products covered by the contract award-

ed to them. This is in keeping with the lack of moral responsibility in the present administration demonstrated in the conduct of many governmental affairs, as evidenced by the deep-freeze gifts to White House connivers, 5-percent agencies, contracts acquired through back-door entrance to the White House, and to the fraudulent expenditures of billions of dollars of the taxpayers' money.

As other evidence of this all-time high in dishonesty in the operation of our Federal Government, there has just come to my desk a telegram from a constituent in my congressional district with reference to the veterans' hospital at Vancouver, Wash., which refused to award a contract for the delivery of milk on a bid aggregating \$45,706.72 but awarded the contract to a competitor on a bid which was higher by some \$2,500. The text of this telegram is as follows:

This firm submitted the low bid for milk supplied to the United States veterans hospital at Vancouver, Wash. The total amount of our bid was \$45,706.72, or more than \$2,500 less than the nearest competitor. This firm was the only Portland dairy bidding for this business. The other bidders were all Vancouver, Wash., dairies. The bid was given Sanitary Dairy, of Vancouver, Wash., although they were substantially higher than the bid submitted by the firm. When we contacted the sales officer and requested an explanation, he claimed that the inspecting committee felt that our plant did not meet with their satisfaction. The committee of three people, including the sales officer who made this inspection, are amateurs. This firm is inspected and approved by the United States Public Health Service, and in their most recent inspection our rating was 93.79 percent. We are further approved by the United States Veterinarian Service for all Army contracts. We have the milk contract to supply all the United States engineers dredges on points along the Columbia River. We are the successful bidder for the United States veterans hospital in Portland, Oreg. The inspecting committee for this hospital has approved us in the past on four different occasions and have given their approval 1 week ago. We believe there is collusion involved in the awarding of the milk contract of the veterans hospital of Vancouver, and have evidence on two former occasions. What can be done to correct and remedy this situation? Will you please advise?

Thank you kindly.

From this telegram it will be observed that the low bidder who was denied the contract was fully qualified and the product offered by him had the approval of many Government agencies, including the Public Health Service, and that apparently through manipulation the contract was not awarded to the low bidder.

I have demanded an explanation from the Veterans' Administration and will be interested to know the reason why the Federal Government in this particular case was deprived of \$2,500 of tax money by refusing the acceptance of the lowest qualified bidder.

Mr. REED of New York. Mr. Chairman, I yield 4 minutes to the gentleman from Michigan [Mr. CRAWFORD].

Mr. CRAWFORD. Mr. Chairman, earlier in the afternoon there was some debate dealing with two or three points which I want to discuss very briefly. One of the points had to do with the break in the bond prices, on bonds issued

by the Federal Treasury in connection with the financing of World War I. Students of this question will recall that the World War I debt reached about \$26,000,000,000, and assuming that all of those bonds outstanding at that time had broken 20 percent, that is \$100 down to \$80 per \$100 bond, the loss on the whole would only have been \$5,200,000,000. Of course, all of those bonds did not sell at a break in price.

Now, let us take your situation at the moment, with the people of this country holding about \$65,000,000,000 of savings bonds. Since 1939 no man will dispute that you have had a drop in the buying power of dollars in excess of 25 percent, so if we use this 25 percent break in the buying power of the savings of our people on the \$65,000,000,000 of savings bonds, you have suffered a loss through the inflationary forces of about \$16,000,000,000, or more than three times the break in the 20-percent drop in the price of Government bonds following World War I.

For 4 or 5 years as a member of the Committee on Banking and Currency I scrapped over this question with our past Secretary of the Treasury, Mr. Morgenthau, because at no time did I ever agree that he was following a course which would save our people from loss due to depreciation in the market value of dollars. And that is what you are dealing with, is dollars. They started out on this idea that you could buy a bond today and 60 days later you could cash it back in for what you paid for it, but nevertheless you have lost this buying power in savings which certainly exceeds \$16,000,000,000 on the bonds now held by the people.

Another point was made to the effect that the insurance companies of this country during the past 4 or 5 years have sold Government bonds which they held so as to go into the ownership of mortgages on homes. The joker in that transaction was that the Federal Reserve bank was the primary purchaser of bonds sold by insurance companies, and as the Federal Reserve banks went into the market and purchased those bonds, that was equivalent to printing press money, and if you want authority on that, ask Marriner Eccles, ex-Chairman of the Board of Governors of the Federal Reserve System. And when the Federal Reserve System steps into the market and purchases obligations, whether sold by insurance companies or by industrial concerns or other people, it puts the printing-press money into the market and thereby supplies the main force of inflation against the savings of our people.

Still another point was made in the debate this afternoon.

Mr. JOHNSON. Mr. Chairman, will the gentleman yield?

Mr. CRAWFORD. I yield to the gentleman from California.

Mr. JOHNSON. They had an investigation made on the matter of loss of purchasing power in connection with benefits realized from insurance policies, and it amounted to over \$100,000,000,000.

Mr. CRAWFORD. Practically every man on this floor has an insurance policy, or anywhere from 1 to 50 policies

running in favor of their families, and these policies are dropping in buying value every minute because of this inflationary force.

Mr. DOUGHTON. Mr. Chairman, I yield such time as he may desire to the gentleman from New York [Mr. CLEMENTE].

Mr. CLEMENTE. Mr. Chairman, I regret to find that in this tax bill, while it is a revenue-producing measure, yet no consideration was given to the poor man in allowing him to include his entire medical expenses as well as other exemptions, and that no consideration was given in connection with pensions, except social-security benefits are deductible.

(Mr. CLEMENTE asked and was given permission to revise and extend his remarks.)

Mr. REED of New York. Mr. Chairman, I yield such time as he may desire to the gentleman from Ohio [Mr. Bow].

Mr. BOW. Mr. Chairman, the tax increase called for in this bill now before us is the largest in our history. However, it is not alone because of its enormous amount that I intend to vote against it.

I intend to vote against it because it would impose upon the American taxpayer a financial burden that is unnecessary and unfair.

I do not feel that the administration has topped the nonessential spending that has been its trade-mark so many years. This bill would be a license to continue that spending in a time of dire emergency, when our taxpayers already are carrying unprecedented loads.

Let me cite one good example of the administration's unwillingness to cut unnecessary spending.

Under the whiplash of administration leaders, the Senate recently passed S. 75, the central Arizona project bill. If there ever was a project that should come under the heading of wild and woolly spending, this is it.

Called a rescue project, this reclamation scheme would cost an estimated \$788,000,000 to construct, a very conservative estimate. Not included are other dams and works without which the main project could not operate.

In addition, the project would cost the taxpayers more than \$2,000,000,000 for lost interest alone. Secretary of Interior Chapman made that estimate, not I.

Who would the project rescue? It would rescue some private landowners in one State. More than half of the money allotted to irrigation works in this project would go to 420 landowners, many of whom are war speculators. These 420 private landowners would receive benefits averaging half a million dollars each.

Is that economy?

I believe the representatives of the 47 States, excluding Arizona, of course, should examine this project, as I have done. It would cost the taxpayers of my State nearly \$120,000,000.

For the benefit of the representatives of the other States, I will include here a list showing what the central Arizona project would cost the taxpayers of each State in lost interest alone.

The list follows:

Cost to Nation's taxpayers, by States, of central Arizona project

OFFICIAL STATEMENT BY SECRETARY OF INTERIOR INDICATES EXTRA TAX BURDEN OF \$2,075,729,-000 FOR INTEREST ALONE IF CONGRESS APPROVES PROJECT BILL S. 75

State:	Cost to taxpayers ¹
Alabama.....	\$24,286,000
Arizona.....	7,680,000
Arkansas.....	14,945,000
California.....	172,701,000
Colorado.....	16,606,000
Connecticut.....	34,665,000
Delaware.....	8,303,000
Florida.....	26,777,000
Georgia.....	29,060,000
Idaho.....	6,642,000
Illinois.....	157,548,000
Indiana.....	47,534,000
Iowa.....	32,797,000
Kansas.....	23,871,000
Kentucky.....	24,909,000
Louisiana.....	25,324,000
Maine.....	9,133,000
Maryland.....	34,872,000
Massachusetts.....	70,575,000
Michigan.....	97,767,000
Minnesota.....	38,609,000
Mississippi.....	14,738,000
Missouri.....	52,516,000
Montana.....	7,265,000
Nebraska.....	17,851,000
Nevada.....	2,698,000
New Hampshire.....	6,020,000
New Jersey.....	68,291,000
New Mexico.....	5,812,000
New York.....	304,509,000
North Carolina.....	33,004,000
North Dakota.....	7,057,000
Ohio.....	119,977,000
Oklahoma.....	24,286,000
Oregon.....	21,588,000
Pennsylvania.....	158,171,000
Rhode Island.....	11,624,000
South Carolina.....	15,776,000
South Dakota.....	7,473,000
Tennessee.....	28,438,000
Texas.....	90,917,000
Utah.....	7,056,000
Vermont.....	3,736,000
Virginia.....	30,928,000
Washington.....	34,250,000
West Virginia.....	19,097,000
Wisconsin.....	43,590,000
Wyoming.....	3,736,000
District of Columbia, Hawaii, and Alaska.....	30,721,000

United States total..... 2,075,729,000

¹ Cost to the Nation's taxpayers of \$2,075,729,000 is an official estimate of Oscar L. Chapman, Secretary of the Interior. It is based on the provisions of S. 75 (central Arizona project bill) and the following specified conditions: Construction-cost estimate of \$708,780,000, made by the Bureau of Reclamation (S. Rept. No. 832, 81st Cong., 1st sess.); an interest rate of 2½ percent; an 8-year construction period; and a 75-year financing period. The Secretary's statement appears in his letter dated June 28, 1950, to J. Hardin Peterson, chairman of the House Public Lands Committee. The statement was approved by the Bureau of the Budget.

I repeat. Is that economy?

The administration leaders forced this extravagant, fantastic, and totally nonessential project through the Senate.

When will this crazy spending stop?

If the administration continues to approve such unnecessary and infeasible projects as this one for private landowners in Arizona, the breaking point in our economy will soon be reached. From one side of its mouth the administration proposes economy, and from the other side shouts for a single project in one State that would add a tax burden

of several billions on the backs of the Nation's taxpayers.

I repeat that I intend to vote against this tax increase because it is unnecessary and unfair. I could not be opposed to such wild spending schemes as the central Arizona project and vote to give the administration more billions to spend on other nonessential projects. That is what this tax increase would do—give the administration billions of dollars to waste at a time when we are facing a fight for our existence and when the Nation's taxpayers are already carrying the greatest tax burden in our history.

This Congress should slash appropriation bills to the bone—billions can be eliminated—then pass a pay-as-we-go tax bill to meet the reduced budget. It is just as simple, Mr. Chairman, as the old adage, "A penny saved is a penny earned." In this case two billion saved is two billion earned for the American taxpayer.

(Mr. BOW asked and was given permission to revise and extend his remarks.)

Mr. REED of New York. Mr. Chairman, I yield such time as he may desire to the gentleman from Missouri [Mr. CURTIS].

(Mr. CURTIS of Missouri asked and was given permission to revise and extend his remarks.)

Mr. CURTIS of Missouri. Mr. Chairman, as I analyze the proposed Revenue Act of 1951, H. R. 4473, its purpose is to pursue the philosophy of "pay as you go" which the administration has at long last admitted is the only sound economic philosophy that this country of ours can safely follow.

The pay-as-you-go philosophy or the balanced-budget philosophy which is another name for the same thing, has as its basis one axiom: If you keep spending more than you take in, you will go bankrupt. To this axiom there is a corollary which the administration in its present lip service away from deficit financing to a balanced budget does not seem to care to recognize. The corollary is this: Becoming bankrupt is not an immediate result of overspending; in the interim the increasing debt built up from overspending produces inflation which becomes increasingly worse.

In all the President's statements and all the statements of the President's economic advisers, nowhere is the corollary admitted. He refuses to tell the people that the inflation from which we are suffering is directly caused by our \$260,000,000,000 Federal debt.

I am interested in only two things when it comes to considering this tax bill. First, to try to ease the inflation which is sapping the living standards of our people. Second, to try to prevent the bankruptcy toward which we are going.

If this tax bill is not going to ease inflation and if it is not going to stay us on our road to bankruptcy it has no justification.

The only purpose of pay-as-you-go is to prevent the increase of the Federal debt which causes inflation. There are two ways to put this Nation on a

pay-as-you-go basis: First, to limit our expenditures to fit our income. Second, to increase our income to meet our expenditures.

Mr. Truman chooses the second method to put us on a pay-as-you-go basis. He wants to increase the Federal income, and the only way to do that is to increase taxes.

However, inflation occurs as the result of decrease in productivity as well as from increase in purchase power. Increasing taxes to meet increased Federal spending does not in any sense decrease purchasing power. As a matter of fact, it actually increases purchasing power because the Government itself is doing the spending and purchasing. It is in many instances taking what would be savings of the private citizens—which is money withdrawn from the purchasing market—and insuring that it will go into the purchasing market via the Federal Government.

Nor does increasing taxes result in increasing productivity. It has the opposite effect. It withdraws in many instances capital devoted to private production and converts it to Government spending.

On top of all this the present tax bill encourages wasteful spending. The experience we had with the excess-profits tax in the last war should be sufficient evidence of the terrible encouragement to waste rather than efficiency on the part of corporations. The same may be said for the exceedingly high taxes on certain private individuals.

Whether we like the rich men or not, we are all agreed that we want them to keep working and not just spend money lolling on the sands of Florida or in the spas of Europe. But there is little encouragement for them to work when for every dollar they earn they can keep only 5 cents of it, that is, except for the patriotism of these men. But then the purpose of soaking them is because we do not think they are patriotic. If they were patriotic, they would not earn so much money. Do we in America really believe this, or is this the whisperings of a serpent in our garden of Eden?

The greatest tragedy of this tax bill is the calloused way in which the administration decides to hit the low-income group. The little man is being hit on the theory if you take his money away from him he will not be able to enter the buying market and so you cut down on the purchasing power available for goods. Well, this is as false a theory as it is wicked. It is false because the money will be spent in the market, only the Government will spend it, not the little man. It is wicked because the little man being hit is only buying necessities of life, and cutting his income in these inflationary times is cutting his standard of living. In other words, it is doing just what we are fighting inflation to prevent.

Our immediate fight against inflation is predicated upon our desire to prevent a decrease in the standard of living of our people. Let us not forget this objective.

For these reasons I am strongly of the opinion that pay-as-you-go must rest upon cutting expenses, not increasing taxation. The President has not made the slightest attempt to cut Government spending. Only the Congress has done this and then not very effectively. Until he does, there is no sense in even talking about balancing the budget or a pay-as-you-go program. Until the President cuts Federal expenditures, he cannot be considered to be in favor of abandoning his theory of deficit financing.

There is still time for this to be done. Nor need our national defense suffer. There is more waste today in the military branch of our Government than anywhere else.

The studies and reports on military supply and procurement and military surplus property made by the Bonner subcommittee of the Expenditures Committee, on which I serve, show the waste to be in the billions of dollars. Anyone who is presently serving in the Armed Forces knows first-hand instances of unnecessary waste and inefficiency. If the President would really crack down on the military so that they ran off their fat, we would end up with less cost and a more efficient service.

I am voting against this tax bill although I believe some tax increase is necessary to meet the reasonable rising costs for our national defense. I suggest that \$3,000,000,000 rather than \$7,000,000,000 as proposed in this tax bill, is more realistic. I say the President must get his budget down. I believe deficit financing is preferable to a false pay-as-you-go program. For only one reason, it keeps clearly before us just what poor sense we are using.

In closing my remarks I want to again emphasize that the present tax bill is highly inflationary. We are all agreed we must fight inflation. Let the President get to work. Let him roll up his sleeves and tackle the job of cutting out the terrible waste and corruption in Federal expenditures. Then we can match our income with our outgo.

Mr. DOUGHTON. Mr. Chairman, I yield 15 minutes to the gentleman from Louisiana [Mr. Boggs].

Mr. BOGGS of Louisiana. Mr. Chairman, we are nearing the end of the debate on the Revenue Act of 1951. I have followed the work of the committee and listened to the debate as carefully as I know how. I believe there have been, as customary in our deliberations, quite a few reckless and unconsidered charges.

I have a deep friendship and respect for all the members of the minority on the great Committee on Ways and Means. The thing that always astonishes me, however, is the way we work together rather harmoniously in committee sessions and then, after working as diligently as we know how as a team, when the bill is finally reported the majority is invariably portrayed as a group of grasping, power-seeking, desperate despots seeking control of our economy, and we become the beneficiaries of all sorts of labels, names, and so forth.

I presume that is the history of most legislation and that is the history of politics as such. I am not complaining

about it. I believe fundamentally in the two-party system and the objectives thereof. At the same time, however, I believe in being factual about what transpires in our committee sessions.

I do not know how many Members have read the minority report, but to use the common expression, "It just ain't so." That report starts off with the assertion that this bill was finally conceived in a star-chamber session of the Democratic members of the committee.

We began consideration of this bill some time back in January or February, I have forgotten when it was.

Mr. DOUGHTON. February 5.

Mr. BOGGS of Louisiana. I know it has been a long time ago, because it seems to me I have been attending committee meetings for months and months. To make the charge that this legislation was conceived in a star-chamber proceeding is just silly. As a matter of fact, no bill has been more fully considered.

All of you know how the Committee on Ways and Means operates. We have a fine staff made up of our own people, made up of the Treasury Department people, and made up of experts from the outside. After we have considered all of the data, all of the information available from business, from industry, from private organizations, from private citizens, and from representatives of the various segments of the American economy and society, we sit down in executive sessions and draft a tentative bill. Not only have these decisions not been made by star-chamber proceedings, but in every instance the decisions of the committee were voted on at least twice and in some cases as many as three or four times. As a matter of fact, if you were to take the various votes of the committee you would find that in most instances the minority was represented one way and another on the various major decisions made by the committee.

Mr. EBERHARTER. Mr. Chairman, will the gentleman yield?

Mr. BOGGS of Louisiana. I yield.

Mr. EBERHARTER. I just had a check made, and I am informed that there were 109 roll-call votes in addition to all the votes by a show of hands and voice votes. Of those 109 roll call votes, less than 1 out of 15 was along party lines. In other words, the gentleman is absolutely correct. The votes were not on party lines all the way through the deliberations of the committee. I might add this, also. The staff of the committee this year is the same staff and the same personnel that have worked with the committee when the Republicans were in control.

Mr. BOGGS of Louisiana. I thank the gentleman.

Here is what we are up against as members of this committee. Let us try to be objective about it. Let us look at the situation and try to examine what it is. Everybody knows there is not a single, solitary member of this body who wants to vote for more taxes. I wonder if the members of the minority think it is any easier for the members of the majority to return to their constituents and say, "We have had to raise taxes." Do you think so? It is very difficult. It

is a lot easier to say, "Nosiree, I stood there in the well of the House of Representatives and I voted against that nefarious measure."

What a pleasant sensation. What an easy approach to the difficult problems of this Nation.

Now, what are the facts? The United States of America, loved by every Member of this body, whether he sit on this side or on the other side of the aisle, is threatened more desperately than at any time in its whole history. We face a military power dominated by communism, determined to conquer. We face a demand for increased revenues. We face a demand for a sound fiscal policy in order to maintain a defense program that all of the Members on this side, with very few exceptions, are patriotically and sincerely voting for. Either we vote to provide the revenues to finance a preparedness program or we attempt a deficit finance program. There is no alternative.

The members of the minority, in their report, and it is written there in black and white, insist upon a pay-as-you-go policy, and yet they say even under this bill if it be enacted into law there is a prospect of a deficit ranging from five to six to seven billion dollars.

They are saying in one breath that we must pay as we go. They are saying in the next breath that we must not raise revenues. They are saying in the third breath that even if we raise them to this extent we will still face a deficit of from five to seven million dollars. "O, Consistency, thou art a jewel."

I agree with my distinguished chairman [Mr. DOUGHTON] that this bill goes as far as we can possibly go. I agree, too, with my distinguished chairman that this bill is as well considered, is as well thought out, is as well contrived as any revenue measure could be under the existing conditions facing our great country.

It seems to me to be the height of irresponsibility and failure to recognize the exigencies of the times if we, without counterproposals that are practical, vote against this legislation. I have voted for all of these measures to reduce government expenditures, and I shall continue to do so. The facts are, however, that about 80 cents out of every tax dollar, and the minority report admits it, is going either to pay for past wars or to pay for present wars, or to try to prevent greater wars. Everybody knows those are the facts. Regardless of how you may color them or how beautiful a picture you may paint, you cannot alter those facts.

Do not forget this, that in an inflationary period, such as we are now living in, the cost of all agencies of government has advanced along with the cost of living. We had an interesting experience before our committee recently. I remember it quite vividly. The Director of the Bureau of the Budget was summoned before the committee. He impressed me as being a very able and sincere man. We asked him some questions. As a matter of fact, there were some questions asked of this

gentleman which might have been interpreted as political questions. He could have answered them one way or the other had he been thinking in terms of politics. But he did not do that at all. As a matter of fact, he gave the definite impression of being a completely conscientious public servant, unaware of the political implications of some of the questions. But here was the interesting thing about it. Someone asked him this question: "Mr. Director, how many letters do you have from Members of the House or the other body requesting reductions in specific items in the budget?"

He said, "I do not recall having any."

Then, someone else said, "How many letters do you have from Members of the House or of the other body requesting increases in the budget estimate?"

He said, "Well, on the last count it was about 200."

This was about 3 or 4 months ago. The point I make is this, that the pressure on these expenditures is not limited to this side of the aisle or that side of the aisle. The pressure comes from groups all over the United States of America. I think under those conditions the Committee on Appropriations, which has already effected an over-all reduction of about 10 percent in items which have been considered by this body, is doing a remarkably good job. But as the minority itself points out in its own report, carrying out the 10 percent you will still not establish a pay-as-you-go system.

That is the main issue before this body. Do you want what business says we must have, on what every sound-thinking economist says we must have, namely, a sound fiscal policy? Do you want to pay as you go, or do you want to sell some more bonds and tell the soldiers as they come back that they have got to pay for this war also? That is the issue before this body.

I say to you that the members of this committee, headed by the distinguished gentleman from North Carolina [Mr. DOUGHTON] are just as anxious to preserve free enterprise, our business structure, our equity capital, and the other incidents of production in America as any member of the minority.

In conclusion, it seems to me incapable that it is the height of irresponsibility not to vote for a bill which has been as thoroughly and carefully considered as this legislation.

The CHAIRMAN. The time of the gentleman from Louisiana has expired.

Mr. REED of New York. Mr. Chairman, I yield 2 minutes to the gentleman from Iowa [Mr. GROSS].

Mr. GROSS. Mr. Chairman, a few minutes ago the gentleman from Utah [Mr. GRANGER] pointed to section 306 as being one of the good provisions of this bill. If he is satisfied with it and the livestock men, the farmers of Utah, are satisfied with it, all I can say is they are easily pleased. I say to you that this is one of the most rankly discriminatory provisions in that it establishes a 12 months' period before the farmer can obtain the benefits of the capital gains tax, whereas all others are on a 6 months'

basis. Why not put all the people of this country on an equal basis of either 6 or 12 months? Why single out the farmer for discrimination? The farmer is already being discriminated against in the matter of the cattle price roll-backs, because there have been no roll-backs in the prices of things farmers must buy. This is just another half loaf, another kick in the teeth for the farmers of America.

Under the terms of this bill you give preferential treatment to promoters, among others. I recall that a year ago a man came to Washington and bought a large block of the stock of the Washington baseball club hoping to obtain control of this baseball organization, but he failed to obtain a controlling interest. He held what he had bought until he could apply the capital gains tax provision of the law, and, as I remember, in a matter of some hours after the 6 months expired he sold the stock he had obtained. Who is more important, farmers who feed the Nation or promoters?

Mr. GRANGER. Mr. Chairman, will the gentleman yield?

Mr. GROSS. I yield.

Mr. GRANGER. What the gentleman said is true; it extends the time from 6 months to a year. But I must say to the gentleman that it was the people from his own State, the State of Iowa, who raised the question of the time; and as a result of a controversy between the livestock interests themselves it was their decision, not the decision of the committee, but the decision of the livestock interests themselves, that all the interests would be best served by having it extended to 1 year, and they all agreed to it.

Mr. GROSS. I do not know who from Iowa the gentleman refers to, but I am certain that this discriminatory provision will never meet with the approval of the farmers of the State of Iowa.

(Mr. GROSS asked and was given permission to revise and extend his remarks.)

The CHAIRMAN. The Chair would like to announce that the gentleman from North Carolina as of now has consumed 4 hours and 15 minutes; the gentleman from New York as of now has consumed 4 hours and 4 minutes. The gentleman from New York is recognized.

Mr. REED of New York. Mr. Chairman, I yield 4 minutes to the distinguished minority leader, the gentleman from Massachusetts [Mr. MARTIN].

(Mr. MARTIN of Massachusetts asked and was given permission to revise and extend his remarks.)

Mr. MARTIN of Massachusetts. Mr. Chairman, we have been warned by the able and distinguished chairman of the committee [Mr. DOUGHTON] that he has doubts of being able to secure much further revenue under the present system of taxation than is carried in the pending bill. Others have stated this bill scrapes the bottom of the barrel and that further revenue can only come from the imposition of a national sales tax.

These statements all indicate the seriousness of our financial condition and show conclusively that we must stop ex-

cessive spending if we are to protect the value of the dollar, which some people are now facetiously designating as a "dollarlette."

This will be the third tax increase proposed since the Korean War. It will mean, if enacted, \$17,000,000,000 tax increase in a little over a year. Still there are no real signs of any concerted effort toward economy. The administration keeps on asking, yes lobbying, for larger spending. It continues to press for new proposals and tenaciously fights against any retrenchment in the bureaucracy.

No one in the executive branch raises any cautionary signal in the administration concerning the military spending, regardless of how fantastic may be some of their proposals. It is all stampeded through practically on the "say so" of the military. Congress, wanting to meet all just demands of security, finds itself in a difficult position because of the lack of this cooperation. Yet we move along until we could have a financial crash. There is a limit to what the workers, the farmers, the white collar people, as well as industry, can bear.

The seriousness of our condition is such that I have decided to vote to recommit this tax bill, and if that fails, to vote against the bill.

Before these terrific taxes are imposed we should know what our expenditures are to be. None of the appropriation bills has yet been enacted. Actually, we don't know how much money is needed to balance the budget. This tax bill should be delayed until we do know.

This tax bill is being sought by the administration on two contentions: First, that additional revenue is needed to finance defense; second, that it is needed as an anti-inflation measure. Assuming the need, this bill will not bring about these objectives; it will do more harm than good. An aggressive and intelligent program of economy can achieve the ends sought without ruinous taxation on the people and the imposition of alien policies.

The administration says this tax bill is needed to help finance the war in Korea. At the same time, the administration says that it plans to continue its treadmill war in Korea on the same senseless basis that General MacArthur protested against and that 141,000 casualties attest to.

The administration says that this tax bill is needed to expand national defense. At the same time, the Secretary of the Army, Frank Pace, publicly announces that our Defense Establishment has been built to a point of readiness for a war with Russia.

The administration says that this tax bill is needed to help control inflation. At the same time the administration continues its uncontrolled and profligate spending, which is almost universally recognized as the fundamental cause of our inflation.

The truth is the more money we raise the more the administration spends.

The truth is that we are slowly losing our freedoms as we move toward the garrison state.

The truth is that we are losing all hope of national solvency and financial

stability as one inflated budget after another is sent to the Congress.

In fact, what we have here is a so-called pay-as-we-go tax bill sponsored by a pay-as-we-lose administration.

Regardless of how dire the administration paints the picture, regardless of how critical the administration finds each emergency, the facts are that the Congress has been duped into passing one tax increase after another by an administration which is bent on taxing us into socialism.

Year	National income	Total taxes (Federal, State, local)	Percentage extracted from our citizens
1941.....	\$103,800,000,000	\$15,226,000,000	14.70
1945.....	182,700,000,000	50,187,000,000	27.45
1951 (estimated on basis of no change in tax laws).....	260,000,000,000	75,000,000,000	28.80
1952 (estimated on basis of House bill becoming law).....	260,000,000,000	81,000,000,000	31.10

When approximately one-third of a citizen's income is seized by the Government, the citizen is no longer free and independent. He must look to Government for help. He, along with 149,000,000 other Americans, has become what the Socialists wanted—an incipient ward of the state.

Just as 14 percent became 27 percent, and as 27 percent will become 31 percent under this tax bill, 31 percent will soon become 35 percent, then 40 percent as it is in Britain today, then 50 percent, then 60 percent as it is in the Soviet Union today. The Socialists will have their socialism, but Americans will have lost their freedom completely. Government, which should be the servant of the people, will have become the master.

What is needed to save America is to cut Federal spending and cut it drastically. What we need to do is what the Eightieth Congress did—cut spending and cut taxes. And the Eightieth Congress did it while providing for an expanded national defense. It did it by sending our bureaucracy to the steam vat to lose excessive fat.

What the Eightieth Congress did, this Congress can do if the Democratic leadership which controls this Congress has the courage to do it. What this Congress should do is start a revolt and start it now. It should recommit this bill. We must stop confiscatory taxation and stop nonessential spending and apparently the only way to do it is to turn down the constant requests for new spending money.

If the Congress does not start the revolt this year, the American people will next year.

The administration's contention that this tax bill is needed to help control inflation is economic voodoo talk. No set of controls and no pyramid of taxes ever devised by man will stop inflation in America when the root of the evil is Government spending.

And the only way we are going to stop this Government spending is to stop excessive taxation and stop the borrowing. The American taxpayer is going to have to do to his Government what a father does to a wasteful son—cut off the spending money.

The scheme is so simple as to be diabolical. The Government reaches into every citizen's pocketbook and extracts by taxation an ever-increasing percentage of the citizen's income until finally he finds himself no longer free and independent, but financially dependent upon the Government for his sustenance. When that stage is reached, the Socialists have achieved their goal.

All we have to do is look at a few simple figures to see what is being done to America by the Socialist-minded planners who infest our Government.

What this administration wants is uncontrolled Government and controlled people.

What America needs is a controlled Government and a free people.

It is about time the Congress slapped some controls on Government and took a few off the American people.

Every Member of Congress and every man, woman, and child in this country knows that world conditions require us to have the strongest practical national defense. Every American and every Member of Congress is willing to contribute their share toward raising the necessary revenue to achieve that defense. But they want their military leaders to use a little discretion in their spending.

Let the administration pare nondefense expenditures to the bone and hold military expenditures to essentials, and no increase in taxes will be necessary. Let the administration do this, and then if conditions should arise where additional taxes are necessary, which I question, then let them come to Congress with an American tax program where all will share the sacrifice equally.

The time has come when everybody must stand up and be counted. I, for one, want it unmistakably known that I oppose any increase in taxes until a sincere effort has been made to wring the water out of our Government's blue-sky ventures into the realm of socialism.

Mr. REED of New York. Mr. Chairman, I yield 5 minutes to the gentleman from Iowa [Mr. JENSEN].

Mr. JENSEN. Mr. Chairman, this bill to extract over \$7,000,000,000 more from the pocket of the already overburdened taxpayers of America should be properly entitled "A bill to insure uncontrollable inflation by presenting more billions to the party in power to spend and waste." When, in the name of common sense, and also in justice to the people now living and yet unborn, will a majority of the Members of Congress demand, as do a great majority of the thinking people of our land, that this mad rush to national and individual bankruptcy be brought to a dead stop?

Does it ever occur to you that the tax take in local, State, and Federal taxes for each American family already averaged close to \$2,000 annually, most of it in hidden taxes, and that if this bill is made law an additional tax burden of \$165 will be piled on the back of each American family? Cannot you see, my colleagues, just how this will affect the living standard of our people, and what the ultimate end will be? Surely you must know that the passage of this bill will take another bite out of almost every workingman's paycheck by increasing his taxes 12½ percent, which is a greater tax burden than the average person can endure and will long tolerate, to say nothing of the incentive destroying tax burden this bill imposes on every kind of business in our land, including the business of farming, our basic industry.

Since the last tax bill was considered by this House on December 4, 1950, and which I also spoke against and voted against, but which is now the law of the land, many of my colleagues who voted for that bill have told me that my vote was the right vote and that they would in the future oppose all bills to increase taxes. I earnestly hope enough Members have now seen the light to defeat this unjust and unnecessary bill now before the House.

This is what I had to say about the last tax-increase bill on December 4, 1950:

Mr. Speaker, here we go again. History will prove the statement I am about to make—that every time Mr. Truman and this administration get messed up, which they are most of the time, they simply ask for more money, more appropriations by the billions. We appropriate, then, of course, they say, "Now we must tax. We must tax the big fellow. We must tax the rich." The facts are that the ultimate consumer pays the whole bill in the final analysis regardless of who we try to soak. Who are we taxing if we pass this bill? We are taxing the ultimate consumer. And who are they? Well, the white-collar worker and the blue-denim worker plus the retired folks pay approximately 60 percent of the taxes. The farmer pays about 30 percent; and all the rest of us, including the corporations and all business and industry in America, plus folks like you and me, pay the balance of about 10 percent. Remember the ultimate consumer is the only fellow who cannot pass his tax load on to the other guy, so the ultimate consumers pay the entire tax bill in the final analysis. Oh, yes, we are going to tax the rich. England tried that. But the Socialist Party had to tell the common man in England about a year ago that there were no more rich left to tax, and so the common man, the little fellow, the laboring man, the consumers must pay the bill from now on. This party in power, the New Deal, the Fair Deal, the Socialists, or whatever you care to call them has never had a cure for anything except to spend more billions, go deeper into the red, then tax, tax. That is all they know. They have no conception of how to properly run a republic such as ours, and the American people have finally awakened to that fact. Spend and spend; elect and elect. Well my colleagues, that day is over. The day of electing spendthrifts is over. The President has asked us for \$17,000,000,000 more for defense for the fiscal year 1951. I suppose we will do about as we have done before. Give it to the reckless wasters to spend, for what?

Will they spend 82 percent for housekeeping and only 18 percent for armaments, as is the case with every dollar Congress appropriated for national defense since VJ-day? That is tragic and a crime of the highest order. I pray God that those responsible will finally be brought to the bar of justice and that no more of that kind of business will be tolerated even by the spenders and wasters in power, or is that too much to expect even while our boys are dying in Korea for lack of fighting tools, and reinforcements from our friends across the seas who talk nice about us when their hands are out, but who forget when the going is tough, as it is for our boys in Korea? God help them.

Mr. Speaker, the boys who survive this war will have to pay and pay and pay, for they will be consumers, too. How tragic. What a disgraceful showing. One of these fine days we will tax the homes, the farms, and the business away from the American people just as sure as we are sitting in this House of Representatives today, because every nation in the world that traveled the full length of the spending, wasting road we have traveled at breakneck speed during 16 of the last 18 years have all come to ruin and destruction, socialism, communism, endless strife, and war. After we spend ourselves into complete bankruptcy and uncontrolled inflation, who, I ask, is going to be the great savior of this world as far as human beings are concerned? No nation can then look to us to save them as we are trying to do; no nation in the world will have anywhere to go for aid and protection or to give them bread to save them from communism. Mr. Speaker, the thing we should do, instead of passing this bill, is to send this bill back to committee and then pass a bill to rescind about \$4,000,000,000 of nondefense appropriations that we have already appropriated for the fiscal year 1951. We could go through the nondefense appropriations we have already made for 1951 and find at least \$4,000,000,000 that could and should be eliminated under present conditions. But, of course, the spenders in control will not do that; they will keep on appropriating and taxing, and by so doing we will ruin this great, free America of ours just as sure as night follows day.

That, my colleagues, expressed my sentiments then just as it expresses my sentiments on this bill before us today.

The spokesmen who favor this bill from the President right down the line are again giving us the same old bologna they have been feeding the people and the Congress for years and years, which is that we must tax away from the people any surplus dollars they might have laying around in order to stop inflation by making the people so poor they cannot buy the things they need for their businesses and their families.

So, here we go again getting all set to take over \$7,000,000,000 from the people, bringing it to Washington for the smart boys, the White House palace czars, to spend and waste, just as they see fit, paying the salaries of 2,500,000 Federal employees, amounting to about \$10,000,000,000 annually, many of whom also have carte blanche authority to spend your tax dollars by the billions by signing cost-plus, fixed-fee contracts with thousands of manufacturers here and abroad for services and goods, from common pins and champagne to airplanes for our federally controlled establishments of every nature, and for the military, with little thought of the exorbitant prices paid.

Now I ask, wherein lies the least inflationary force and the least threat to our way of life, by the passage of this bill or by its defeat? Surely, my colleagues, you know the answer. No; we should not, we dare not tax the people more. You may be sure this reckless spending spree will never stop so long as Congress continues to take untold billions from the people for this sprawling bureaucracy to spend. What we should do and must do is defeat this tax bill, and then cut to the bone every appropriation requested by the President which is clearly not justified for military, domestic, or foreign aids. To do less will not save the lives of our fighting men, nor help our friends across the seas, nor safeguard our priceless heritage.

Mr. REED of New York. Mr. Chairman, I yield 1 minute to the gentleman from Michigan [Mr. MEADER].

(Mr. MEADER asked and was given permission to revise and extend his remarks.)

Mr. MEADER. Mr. Chairman, I will vote to recommit this tax bill. If this motion fails, I will vote against the bill. Out of respect for my colleagues, my constituents and the American people, I will state my reasons for this decision.

First, this bill comes before us prematurely.

Second, it comes before us as a "yes or no" proposition, with no opportunity for the elected representatives of the people in this body to perfect or improve this measure through the normal legislative process of amendment.

Third, this measure takes another step in the direction of totalitarian, socialistic control of our national economy.

Fourth, it is deceptive, it is unfair, and conceived in political expediency, and favoritism to certain economic groups and discrimination against others.

Fifth, it contributes another powerful underlying force to the basic causes of inflation.

First. This tax bill is premature because it comes before us at a time when many appropriation measures are still undetermined. The House of Representatives has acted upon 10 appropriation bills, and has authorized appropriations totaling \$13,018,172,594. The Senate has acted on two of these bills.

The Congress accepted the President's challenge to squeeze water out of the budget requests of \$71,600,000,000, and thus far, in its appropriation bills, has cut approximately \$1,818,978,740 from the budget requests.

Still to come before us are the President's program for \$8,500,000,000 for foreign military and economic aid, a defense measure which totals \$6,500,000,000, on which yesterday Secretary Marshall urged prompt action by the Congress. In addition, there are to come before us the State Department appropriation bills, in which the budget requests are \$283,686,476, and the Defense Department appropriation bills, of which the budget requests are \$60,000,000,000, including four and one-half billion of the six and one-half billion requested by Secretary Marshall on Thursday.

Thus, a total of \$70,783,686,476 in budget requests is still to be acted upon by the Congress. No one can now predict precisely by what amount the Congress will reduce these estimated expenditures. It seems to me to be getting the cart before the horse to raise the money before we know how much we are going to spend. Of course, it is true that should the taxes we raise exceed the expenditures, the surplus can be applied in reducing the Federal debt. But this is not the time, during the period of increased expenditures for defense, to add additional burdens to the American economy for the retirement of the public debt.

However, not even the proponents of this measure have advocated this reason as a basis for the confiscatory increase in taxes that they now propose. Pay as you go in the current fiscal year is the maximum that has been advocated.

No harm will be done if this measure is recommitted to the Ways and Means Committee for reconsideration and report when a clearer picture of the authorized expenditures is available.

The bill at the present time is before us prematurely.

Second. The bill is presented to us under the gag rule, which prevents 422 of the 435 elected Representatives in Congress from participating in the raising of revenue. It is shoved down our throats by 13 majority members of the Ways and Means Committee on a take-it-or-leave-it basis. As far as I am concerned, I do not propose to take it. I regard my responsibility to those who elected me as their spokesman and their agent as of far greater dignity than to rubber stamp the action of a small group of Representatives, no matter how wise or able they may be.

I am fully aware of the contentions made in support of this gag rule, that lack of it would cause delay in the passage of the tax bill, and would subject Members to the pressure of interests who desire favored treatment of their particular industries or businesses. To me, this is no valid reason for disenfranchising those upon whom the Constitution placed the responsibility of adopting national policies. It is a confession of weakness in the Congress that its Members must be protected from the pressures and representations of economic classes and groups.

The one hope for this country, in my judgment, is that our national directorate be composed of men and women who have the courage and fortitude and devotion to the interest of this country sufficient to resist the type of approach from which the gag rule is designed to protect us. I, for one, do not propose to confess such weakness on the part of the House of Representatives.

Third. In the previous talks on the floor of the House on this measure, and from the reading of the bill and the report of the committee, it is perfectly apparent that the effect of this measure is to enhance and expand the influence and control of the Federal Government and, particularly, the executive branch of the Federal Government, over our national economy.

This bill proposes to drain into the coffers of the United States Treasury more than 28 percent of our national income. We have arrived at this point slowly and by stages, but this bill, like the straw that broke the camel's back, suddenly brings upon us the realization that our economy has been transformed from a free economy, where the American people, by and large, direct their own livelihoods, into an economy where important decisions are made by the bureaus and departments in Washington and forced upon our citizens. Under this bill, the American people will be working for the executive branch of the National Government in Washington. In a real and fundamental sense, they will have become the slaves, not the masters, of their Government.

I do not charge that the members of this committee, who have presented this confiscatory measure, have done so with the purpose and intent of shackling the American economy. I am not as charitable, however, toward those in the executive branch who have discovered new ways of spending Federal funds and have propagandized them, at public expense, to attempt to create the belief that these huge expenditures are necessary to preserve the existence of our Nation.

I am perfectly willing to believe that there are those in the various echelons of the bureaus and departments who have no sympathy with—or confidence in—the American people and their capacity to exercise intelligent judgment on our national affairs; who believe that they are much better equipped to make decisions for the people than either the people or their elected representatives in Congress, and who are consciously and intentionally accumulating power and authority in their hands, pressing ever nearer to the overgrown bureaucracy of the type we criticize in the totalitarian nations. This bill is an important step in that direction.

Fourth. The bill proposes to withhold taxes from those who are known not to be subject to the tax withheld, in the full knowledge that simply through inertia or ignorance, claims for refunds will not be made. This is a deceptive and immoral device unworthy of the American Government.

This bill imposes a tax which, on the surface, seems to be paid by business enterprises, always a fair target for the political demagogues, in the full knowledge that this tax will be passed on to the consumers, and will not, in fact, be borne by the corporations themselves. This likewise is a deception unworthy of the American Government which, in its conduct, ought to espouse standards of morality and fair dealing equal to those which it establishes for the governed.

Through its omissions to tax, through the manipulation of rates of excise taxes, this bill favors those groups and interests conceived by this administration to be politically advantageous to its retention of power and deals harshly with those groups regarded as possessing little voting potential.

The entire measure smacks of a philosophy punitive of the industrious, the thrifty, the energetic, and the enterprising. By action, this bill attacks the sys-

tem which has made this country what it is today—the free enterprise system, which has been the target of the jibes and innuendoes of those in this administration who consciously, and with malice aforethought, would drive this country ever nearer a Socialist economy.

Fifth. This measure is inflationary. It is advertised as being a depressing factor on the inflation we now endure as a result of profligate national policies. This propaganda is false. It is said that we will drain off purchasing power from the consuming public. In fact, what we are draining off is rather that portion of the purchasing power which most likely would be devoted to savings and investment. The fact is that the money will be spent, whether it is in the hands of the American people or in the hands of the Government. The spending of the money is the cause of the inflation, and we know that the Government will spend it all, whereas, if it remained in the hands of the American people, at least some of that money would not be devoted to the purchase of consumer goods but would be saved or put to work in the expansion of productive facilities.

I must confess that I am disturbed that Congress has not fully discharged its responsibilities to the American people, because it has failed to examine and to challenge in an effective way the representatives of the executive branch of the Government as to the need for Federal expenditures.

The cuts, totaling more than \$1,800,000,000 so far made in appropriation requests, have been altogether too superficial and inadequate. Furthermore, these cuts have been made in a fashion of which Congress cannot well be proud. They have been crude and awkward, of the meat-ax type, but under the present weak condition of the Congress it could not do otherwise. Unless the Congress equips itself with a fact-finding staff, capable of penetrating below the surface generalities of Government operations, it will never be able to make effective and intelligent reductions in nonessential Government expenditures.

The professional staffs of the congressional committees number only some 300 persons for the entire Congress. Even assuming that all of these persons are able investigators, and I do not assume this, it is a wholly inadequate instrument to examine the varied and expensive activities of the 2,000,000 employees in the executive branch of the Government, with a view to separating those which are useful and necessary from those which are wasteful and superfluous. Congress has no one but itself to blame for failing to equip itself to perform this task it owes to the American people. I urge now, as I have urged frequently in the past, that Congress strengthen itself through acquiring competent and loyal staffs to do the fact-finding job without which intelligent judgment—not only on the appropriations and revenue measures—but on its other policymaking work cannot be effectively exercised.

I hope this bill will be recommitted to the Ways and Means Committee in order that that committee may reshape this

legislation in the light of the sentiments expressed by the Representatives who have discussed this measure on the floor of the House.

If this motion is not adopted, I shall vote against this bill, because I believe it to be vicious, iniquitous, and contrary to the public interest.

Mr. REED of New York. Mr. Chairman, I yield 2 minutes to the gentleman from Illinois [Mr. VURSELL].

(Mr. VURSELL asked and was given permission to revise and extend his remarks.)

Mr. VURSELL. Mr. Chairman, the tax bill before us for consideration carries the largest amount in taxes ever requested from our people—\$7,200,000,000. This is the third increase in taxes since the outbreak of the Korean War last June. The tax bill of 1950 contained approximately \$6,000,000,000. In addition we passed the Excise Profits Tax Act of 1950 which contained \$3,900,000,000.

When we add this to the \$7,200,000,000 within a little over 12 months, we will have placed an additional tax burden on the people of over \$17,000,000,000.

The Ways and Means Committee for months has been searching every nook and cranny of our entire economic structure from the most insignificant business to the largest, and trying to get a few extra nickels out of the pockets of the very poor and the greatest amount they can take from business and from the very well-to-do.

In fact this bill indirectly will tax the old-age pensioners and those on relief. This will be accomplished by the increase in excise taxes and by the increase of corporation taxes, most of which increase will be added to the cost of the goods, food, and shelter those subsisting on old-age and relief are obliged to buy.

It will take an extra 12½ percent increase in taxes from the lowest income wage group and will reduce take-home pay of every working man and woman in the Nation in the same amount. This tax bill will increase the personal income tax by 12½ percent of everyone from the lowest to the highest.

In the higher brackets the Government will take up to 82 percent out of every dollar, leaving the taxpayer only 18 cents and in some instances will take as high as 94 cents out of every dollar on which taxes are paid leaving the individual only 6 cents.

The passage of this bill will place the greatest burden of taxation on all of the people they have ever been compelled to endure.

It places an undue burden on the very poor and an undue burden on those who are living on fixed salaries and annuities. It places an undue burden on the wage earners in the lowest bracket and in every bracket as we go on up in the higher wage scale.

The best evidence that it places a terrific burden on the poor and the working men and women of America is proven by the facts which disclose that 70 percent of the personal income taxes provided in this bill will be paid by people in all walks of life whose net income is

below \$5,000. When you further consider that the extra billions in this tax bill are largely provided by the raising of corporation and excise taxes, most of which will be passed on to the consumer in everything he buys as indirect taxes, you can begin to understand what a terrific burden in taxes is placed on those who pay taxes on earned income of \$5,000 or less.

Throughout the many past years of tax and spend and a lot of talk about the forgotten man by this administration, its policy of reckless spending and its constant search for and raising of taxes, the myth of protecting and doing something for the forgotten man has been exploded into thin air.

Over 40,000,000 people who now pay taxes were not on the tax rolls before they began to talk about the forgotten man. This administration, because of its reckless spending, has found all of them. Each one now has a number. They are all burdened with every tax plus the high cost of living, yes, they are burdened with taxes so high that a few years ago they changed the law to take the wage earner's taxes out of his pay check before he got it because they feared if he were allowed to pay his taxes at the end of the year they would be so great he could not pay them.

Mr. Chairman, the proof of this statement can be found in the fact that only 11 years ago, in 1940, only 4,000,000 people were paying income taxes. Today the astounding number of 52,000,000 people are paying income taxes. In 1940, those in the lowest income bracket were paying only 4 percent. Today they are paying 20 percent and this new bill will increase the amount they will pay by 12½ percent.

Only 11 years ago, in 1940, Uncle Sam collected only four billion in income, corporation, and excise taxes. Today under the present law, Uncle Sam collects fifty-five billion from these same three sources. This bill, if passed, will increase the amount by 12½ percent.

We have reached the end of the tax road. This bill scrapes the bottom of the barrel. It in fact increases the tax or cost on the lowly lead pencil that the children must use in school. It is the last big tax bill increasing income, excise and corporate taxes, that can be written without destroying the economy of the country. Next year, if we have to have more taxes, we will have to adopt a Federal sales tax and again those in the lower brackets who pay on net earnings of \$5,000 or under who are carrying 70 percent of the tax load of the Nation, who will have to spend for food, clothing, and shelter on what income is left, will have to pay the major burden of a Federal sales tax.

The highest tax authorities in the Nation and the ablest men in the Congress realize the truth of these statements.

We have arrived at this dangerous and unhappy situation as a result throughout the past number of years of a Government policy of pretending to give the people general hand-outs from Washington, the policy of pretending to give them something for nothing in return

and by following the policy of giving unnecessarily too many billions of dollars away to various nations of the world at the expense of our economy out of the sweat and toil of the taxpayers of America.

It has been brought about partially by the expenses of World War II and by the reckless and profligate Government waste day after day, year after year, and with the centralization of power in Washington attempting to regulate and direct the lives and activities of the people throughout the Nation and the building up of a Federal payroll of over 2,000,000 people for the past number of years, the cost of which for the civilian Federal payrolls has reached the staggering amount of \$3,000,000,000 a year.

Now the question arises, should we approve this bill before us that will place this further burden upon the people and the economy of the Nation. It is a very difficult question to decide. Many sincere Members of the House believe that the legislation contains so many bad features that they overbalance the good, and that a tax bill at this time should not be enacted.

A great many believe the Members of the House should vote to recommit the bill to the committee so that it could be revised, some features stricken out and later reported back to the House.

Those who favor this action point out that we have a surplus of approximately \$4,000,000,000 in the Treasury and that an increasingly greater amount of money will come into the Treasury from here on out, under the operation of the present tax bill. Of course, if this bill is defeated, we will still have the present tax bill with its present rates which will bring in an enormous amount of money with income running at the present high level.

Many of us believe that with the cooperation of the President we could reduce the budget request of \$71,200,000,000 by \$8,000,000,000 or more. If the President would join with the Congress in a drive to reduce Federal spending for the fiscal year 1952, there is no question but that we could put off until next year any increase in taxes over the present rate.

Many Members of Congress on both sides of the aisle during the past 2 or 3 years have worked and voted to cut the cost of government to the bone. They have pointed out on the floor of the House that unless we cut out all unnecessary spending and practice real economy, we would reach the very point we have reached today.

These same Members have made a great effort in this session of the Congress to reduce unnecessary and unjustifiable Government spending with much success. Unfortunately the President and his leaders in both branches of the Congress have not only failed to fully cooperate in an effort to reduce the cost of government but have opposed such action.

Under our Constitution, it is the responsibility of the Congress to provide, through the process of appropriations, the money with which to defray the cost of government.

Mr. Chairman, some Members of Congress have strongly taken the position that this bill should be recommitted to the committee for further study and action. I feel that that should be done. Some have gone further and say that the Congress should defeat this bill as a warning to the President that they will not provide a further increase in taxes until the President changes his policy of spending and joins with the Congress in a real effort to cut the cost of government to the bone; that if the President will join with the Congress in such a drive we may be able to reduce the cost of government to where a much milder increase can, if necessary, be imposed upon the people at a later date and at the same time keep the economy of the country in a sound expanding position which will add greater strength to the Nation in meeting the serious days ahead.

Mr. Chairman, it is the duty and the responsibility of the Congress to take such bold and drastic action as it believes is necessary to see to it that unnecessary spending and waste is reduced to a minimum. That done, we should, if necessary, consider the further increase of taxes.

Mr. REED of New York. Mr. Chairman, I yield such time as he may desire to the gentleman from Indiana [Mr. HALLECK].

(Mr. HALLECK asked and was given permission to revise and extend his remarks.)

Mr. HALLECK. Mr. Chairman, some reference was made by one of the speakers on the other side to the responsibility of the majority in the writing of the tax bill and the attitude sometimes taken by the minority. I would just like to say for the record that up to this time I have voted for every tax bill that has come to this floor in the 16 years I have been here, and I have been voting for those tax bills as a member of the minority. Likewise, I have been voting consistently to cut expenditures, as many of us on this side have.

To talk about it being irresponsible not to take this particular measure is, in my opinion, a completely indefensible statement. I have taken a lot of tax bills, but this one is more than I can swallow. It has been offered to us with apologies, apologies from those who say it does not go far enough, apologies from those who say it goes too far, apologies from those who say it is ill-timed, apologies from those who say that maybe we ought to wait and see what we can do about expenditures, apologies for this provision, apologies for that provision.

Under those circumstances, in my opinion, it is clear that this measure should be recommitted to the Committee on Ways and Means, with the obligation vested and required of them to bring to us a bill that will meet the needs of the day and the hour and the years to come.

We are told that the committee has done the best it could. We are told that in the view of the committee the additional taxation provided in this measure represents the end of the line as far as the ability of the American people to

bear up under such a burden is concerned.

If this is true we can only conclude that an administration which has for years insisted on confiscating the earnings of American breadwinners for its spendthrift programs has now brought us to the end of the rope.

We now find ourselves in a tragic position. That position is simply that, having wasted our resources down through the years—much of it on ill-advised, socialistic, give-away schemes—we now find ourselves at the breaking point in our attempts to provide the wherewithall for our defense effort.

Because we have wasted and are still wasting the people's money on things we did not and do not need we are now told by the committee that this bill represents the end of the road as far as new sources of revenue are concerned.

What greater indictment of an administration can we conceive than that implied by the statement of the chairman of the Ways and Means Committee—that we have reached the ultimate in taxation consistent with the safety of our national economy?

If this is true then I say it is high time we pause to reconsider.

It has been suggested that with this bill now before us and with proper curtailment in nonessential Government spending we can balance the budget for the fiscal year 1952.

I am happy to know there is a recognition on the other side of the aisle that such a thing as nonessential government spending does exist.

And it is in the light of that recognition that I submit this fact:

We are here being called upon to impose the third major tax increase on the citizens of America in a period of 12 months. We are considering this third tax increase even before we have fully explored the extent to which nonessential spending can be curtailed.

To me a far more logical course would be to determine first the extent of our spending before saddling the people of this Nation with taxes to the point of danger.

Moreover, if we pass this bill now, what assurances do we have that the administration will not come forward with proposals for even greater spending?

You know as well as I do that we have no such assurances. In fact I do not believe there is a Member in this House today who would gamble that new requests will not be made.

The history of recent years has demonstrated conclusively that the more money this Congress appropriates the more money the administration will spend and the more it will demand. I would like to see what our total appropriations for next year will be. At this time we cannot tell.

It has been suggested that we face three alternatives:

First. Additional taxation to meet budget demands.

Second. A reduction of nonessential expenditures.

Third. Deficit financing.

On two occasions in the past 12 months the Congress has provided additional

taxation to meet budget demands. We have demonstrated our willingness to cooperate in this emergency.

Can any Member tell me in what way or in what place the administration has demonstrated its willingness to cooperate by modifying its proposals for spending?

I fully agree that it is necessary to meet our responsibilities in government and in the area of national defense by providing the wherewithal to finance such enterprise.

But I also believe it is long since time this administration take into account its responsibilities by cooperating with the Congress in cutting the costs of government, by showing some inclination toward efficiency and economy of operation.

We have demonstrated our good faith. When is the administration going to do likewise?

I am supporting a motion to recommit for these reasons:

The bill is out of balance. It is neither honest nor equitable in its provisions. It contains errors of commission and errors of omission which should be corrected. It does not do what it should to curb the forces of inflation.

Furthermore, it is untimely in the light of the existing situation. With proper Federal economies there is no reason why the people of this Nation must be called upon to make sacrifices in the manner demanded by this bill.

It is high time the administration demonstrates a sincere willingness to cooperate in helping the Congress to meet this problem. We must achieve a major reduction in nonessential spending and we must work out tax legislation that is equitable, legislation which meets the needs of this emergency in a manner that visits the least possible burden on our people while avoiding punitive levies which discourage a continuing expansion of our productive effort.

Given evidence of a real determination on the part of the administration to follow such a program I, for one, will be happy to lend my wholehearted support.

Mr. REED of New York. Mr. Chairman, I yield half a minute to the gentleman from New York [Mr. JAVITS].

Mr. JAVITS. Mr. Chairman, there are a number of fundamental inequities frozen into this tax bill. First, there is the pension provision which fails to give the same exemption from tax to pensioners from Government service and industry as it does to recipients of social security, also pensioners. All these people have given the best part of their lives to the service of the rest of us; there certainly should be no question among them as to the taxability of this modest return in their later years.

There is also considerable doubt as to the propriety of the withholding tax on dividends, bond interest, and so forth. A great hardship is worked, particularly on millions of holders of small blocks of securities who will be put to all the trouble of tax accounting and obtaining refunds. This has not been a major source of tax loss; there are many much greater which are not being dealt with at all or certainly not such summary fashion.

Another inequity frozen into this bill is the heavy amount taken in excise taxes on gasoline, cigarettes, beer, wine, and liquor, television sets, and many other items. Of the total amount of \$7,199,000,000 expected to be raised from this bill \$1,252,000,000 is estimated to come from excise taxes whereas out of a total of over \$6,000,000,000 contemplated to be raised under the tax law we passed in 1950 only \$73,000,000 was for excise taxes, the rest coming primarily from corporations. I believe we have again heavily taxed especially the moderate income family suffering now from the grave increases in the cost of living while we have much too lightly taxed corporate earnings and excess profits.

These, among others, are major inequities and show the hardship in not permitting amendments to this bill. Taking the situation as a whole I believe the only justification for supporting this bill is the time—of the utmost gravity for our people brought on by the Communist menace of slavery to us and to free peoples everywhere—involving also the national-security interest of the United States and to enable us to do the

job at home and abroad that this tragic situation forces upon us. That is my position on this bill.

The CHAIRMAN. The time of the gentleman from New York has expired.

Mr. REED of New York. Mr. Chairman, I yield 2 minutes to the gentleman from Illinois [Mr. BUSBEY].

(Mr. BUSBEY asked and was given permission to revise and extend his remarks.)

**TAX COLLECTIONS BY TRUMAN ADMINISTRATION
GREATER THAN ALL PREVIOUS ADMINISTRATIONS
SINCE 1789**

Mr. BUSBEY. Mr. Chairman, with the enactment of the pending new revenue bill, H. R. 4473, the administration of President Harry S. Truman will have the chance in but seven fiscal years to have collected more revenues from the people of the United States in various ways than all previous administrations were able to collect from the establishment of the Republic in 1789 down through the years to June 30, 1945.

A study of the fiscal records of the Government indicates that total receipts up to June 30, 1945, were reported as follows:

Period	Receipts	Expenditures	Public debt
All Presidents, Washington to Roosevelt, 144½ years, 1789 to 1933.....	\$91,586,076,130	\$112,203,367,065	Millions \$22,538.6
Administration of Roosevelt, 12 years, fiscal 1934-45.....	165,760,825,357	372,235,200,271	258,000.0
Total receipts.....	257,346,901,487		

The table illustrates the fact that in 156½ years the total receipts of the Federal Treasury amounted to \$257,346,901,487. For comparison there is submitted a table showing the total revenue receipts and the net budgetary receipts for the fiscal years commencing July 1, 1945, with actual reported collections through June 19, 1951, and budget estimates for fiscal 1952. The table follows:

Fiscal year	Total receipts by Treasury	Net receipts by Treasury
1946.....	\$44,238,590,336	\$43,037,798,808
1947.....	44,702,703,321	43,258,833,189
1948.....	46,088,807,313	44,745,542,077
1949.....	42,773,505,520	38,245,667,810
1950.....	41,310,627,851	37,044,733,557
1951 ¹	47,683,725,909	44,565,556,373
1952 ²	55,100,000,000	55,100,000,000
Total.....	321,907,960,250	305,998,131,814

¹ Actual collections to June 19, 1951, from Treasury Statement.

² To June 19 of the present fiscal year.

³ Budget estimate contained in President's message to Congress.

FILIBUSTER OF SILENCE

Mr. Chairman, the printed hearings for the Department of State appropriations for 1952 reveal that they began the hearings on February 21, 1951, and concluded them on April 3, 1951. This is over 11 weeks ago and still there has been no decision as to the amount of money that will be available. There has been no word of the committee's action, not only on the Department of State, but also on Commerce, Justice, and the Judiciary.

As near as I have been able to ascertain this unwarranted delay is unique in the annals of Congress. The normal procedure is to prepare the bill immedi-

ately after the hearings have been completed while the testimony is still fresh and clear in the minds of the committee members.

Apparently the leadership in the House has been instructed by the boss downtown to pigeonhole the bill until the President can find a new Secretary of State or at least until Mr. Acheson gets off the hook to which he is presently attached.

In the meantime innocent victims of this dubious strategem are unable to intelligently plan their operation for not only next year but for fiscal year 1953, since I am informed the Bureau of the Budget is pressing the various departments for their estimates for that year.

Shortly now, we will be presented with a continuing resolution to permit the departments involved to operate beyond June 30. This device is also a dubious strategem and I will be interested in seeing what explanation will be offered to justify it. I would likewise invite the attention of the Members of the House to the fact that such a resolution will probably permit the departments to obligate funds at the current rate which will therefore result in their being able to continue operations at a level substantially higher than the Congress in their present mood would permit if the regular bill were acted upon. If this dilly-dallying is permitted to continue we will find that 3 or 4 months of the new fiscal year will already have elapsed before the bill is completed and our opportunity to economize will have been greatly handicapped and probably lost as well, since we will be faced with the familiar accomplished fact.

I consider it a sad commentary on the prerogatives of Congress that Truman, Acheson, and others, are being permitted to put a ring in our nose with a string that leads to the White House. This is a filibuster of silence that confronts us while four of the most important agencies in Government are faced with possible inactivity and probable impotence. This bill that is being held under the iron curtain contains such important agencies as the Federal Bureau of Investigation, the entire Foreign Service with its 200 or 300 missions all over the world, the Federal courts, and the entire Department of Commerce, with its many defense functions. The American public is not only entitled, but I am sure anxious, to receive from the leadership the answers to the following questions:

First. Just why has this bill been held up so long and under such mysterious circumstances?

Second. Are we waiting for Acheson to resign in the hope that such action will placate an aroused Congress who would then rubber stamp the inordinate requests for funds?

Third. What will be the effect of a continuing resolution? Will it permit the Departments to obligate funds at a higher rate than the Congress would probably supply if they were given the privilege by the solons downtown of acting on this bill?

Fourth. Is this filibuster of silence an admission that the elected representatives of the people are subservient to the Executive?

Fifth. What effect does this filibuster have on our relations with our allies abroad? Should they be expected to cooperate with a Secretary of State who fears to have his request for funds debated in the Congress?

Sixth. If the impasse is occasioned only by the very controversial Secretary of State, why is it not possible to act on the other Departments involved in this bill in order that they may go about their business while the State Department stew in its own juice?

Seventh. How is it possible for the hard-pressed members of the subcommittee to intelligently draw this bill with the hearings 3 months behind them?

The CHAIRMAN. The time of the gentleman from Illinois has expired.

Mr. DOUGHTON. Mr. Chairman, I yield 5 minutes to the gentleman from Arkansas [Mr. TACKETT].

Mr. TACKETT. Mr. Chairman, the limited time afforded will not permit me to discuss the many provisions of this bill with which I am not in accord, but the arguments that are being advanced that this bill is inflationary just do not register with me. The three fundamental prerequisites necessary to curb inflationary tendencies which, if not curtailed, will no doubt ultimately result in a depression following the emergency are: First, reduction of nonessential Government spending; second, credit controls of the higher-income business bracket; and third, necessary taxation to siphon off war profiteering and emergency net gains. Of course, we could spend hours discussing these three functions and their connection with inflation, but it will suffice to state that, re-

ardless of efforts to stabilize our economy with the hopes of curtailing inflation, price ceilings are not worth a "hoot" unless rigidly controlled at the manufacturing and jobber levels, along with wages, and the aforementioned three functions are likewise brought into actuality.

I will admit that there has been little effort to reduce nonessential Government spending, the most inflationary activity during either peace or war. Government spending naturally soars during an emergency. Therefore every possible effort should be made to curb unnecessary public spending in an effort to curtail inflation.

It is difficult to know the limitation on credit controls during the emergency; however, I am firmly convinced that the Economic Stabilization Administration has started at the wrong end with regulation W. This regulation attempts to curtail spending by regimenting the purchasing power of the lower economic branch of our people. It is an unequitable, unrighteous, and dishonorable means by which the poorer people are penalized for the sake of those with unencumbered bank accounts. There is no restraint upon big credit accounts, which encourages inflation. If we are to curb the buying power through credit restrictions, we should equally and proportionately restrain all credits—especially the large accounts. To restrict the buying power of the lower income bracket, while allowing free trade among the higher income bracket, will in no wise curb inflation.

Of course, small business drastically feels the effect of the present-day excess profit taxation, but, actually, the excess profit tax laws now in force are not sufficiently rigid upon the higher income business bracket to prohibit war profiteering by big business, and to curb inflation. For instance, the following table will reveal profits of certain industries in the higher income bracket during this last quarter:

Industry	Net profit before payment of taxes	Net profit after payment of all taxes including excess-profit taxes
	Percent	Percent
Electrical machinery.....	62.4	25.2
Motor vehicles and parts....	58.4	16.8
Rubber.....	47.6	21.6
Instruments.....	43.2	19.2
Paper and allied materials..	40.4	20.8
Chemicals.....	40.0	17.2
Stone, clay, and glass.....	39.6	16.0
Furniture.....	39.2	20.4
Fabricated metals.....	30.0	17.6
Iron and steel.....	36.4	14.0

You will notice the tax discrimination among these various industries. It is a certainty that the excess-profit taxation now in effect is not curtailing excessive profits and thereby prohibiting war profiteering and inflationary tendencies. The tax bill now under consideration will at least in some manner adjust this situation.

Many of you today are arguing that this tax bill is inflationary in face of the uncontradicted facts that, unless the excess-profits-tax features of this bill

are enacted, inflation will soar by virtue of wartime profits—yes, blood money. Regimenting our young manhood for the supreme sacrifice in Korea is given less concern than the regimentation of war profits. I do not believe that any man or any business should profit off the valor and bloodshed of the young manhood of this country. You do not mind taking those young men away from their homes, families, jobs, and schools, but you so regret to regiment the dollars that are made as a result of and during their suffering to pay for this war as we go. It is the constant hue and cry that we pay our way in this conflict to preclude further national indebtedness; and, yet, you hesitate to restrict profiteering brought about because of the emergency. This is just further evidence of activities proving the saying that "war is a rich man's business, and a poor man's fight." I sincerely contend that the protection of this democracy is the responsibility of every man, woman, and child; not that of any segment of our population, and certainly not only that of our fine young manhood on the battle fronts.

I must admit that I did not feel any too kindly on my return from World War II toward many who had profited as a direct result of the war.

I could not see why they should make enormous war profits and blood money when I was to return home to my family, completely broke and with several months of my life wasted. Maybe a lot of this is beside the point, but I cannot go for the argument that we should not be regimenting war profiteering.

Much of the discussion during debate on this measure has added absolutely nothing to the merits or demerits of this legislation. The Republican leadership accuses the Democratic leadership of bringing in a gag rule, and the Democratic leadership accuses the Republican leadership of insisting upon a gag rule. That does not add to or take from the merits or demerits of this bill; and does not afford any excuse to anyone for being for or against this tax bill. It is the custom, procedure, and the only practical means for the consideration of a tax bill. No one will contradict that statement; therefore, why all the argument about the fact that this bill has followed the customary proceedings that were established long ago by this Congress?

We realize that in order to stabilize the economy of this country, preclude inflation, and, perhaps, prohibit a depression, it is absolutely necessary to siphon off war profits and emergency gains during the international crisis in which we are involved.

Yes, the individual by virtue of this legislation will be required to pay 12½ percent more taxes than he paid last year, but, we must recall that the certain segment of our population that has been regimented to fight the physical battle for the preservation of our democracy is denied an opportunity to make a dime upon which to pay income tax. I am quite sure that most of those fellows had rather pay an additional 12½ percent of taxes than to sacrifice

their opportunity to live each and every day that they are exposing themselves to the enemy on the front lines.

Mr. REED of New York. Mr. Chairman, I yield myself such time as I may desire.

Mr. Chairman, the hour is drawing to a close when we shall take our final vote on a bill which has required constant attention since February 5 on the part of 25 Members of this House—the Ways and Means Committee.

There are very few on the floor of this House who have lived through the same period that I have. I remember when I came to Congress the country then had the largest national debt in its history—a Democratic debt. It seemed large in those days—\$26,000,000,000. It seemed a difficult situation to face, with 7,000,000 people walking the streets, soup kitchens being built in every town; and most of you men were still wet behind the ears at that time. You were not familiar with what was going on. Our mills were closed. There was not a mill operating in this country. I have been trained in a different philosophy than a great many of you people. In those days the Republican Party believed in a sound currency, and we had one. It believed in the philosophy of hard work and retrenchment—retrenchment in Government. The Republican Party had to take over under those conditions, and I sometimes wondered, as a young man, how the Republican leaders were going to face that situation. But then, within 1 year after they had reduced taxes, we were again in prosperity. After 2 years, 7,000,000 people were working and every smokestack was belching smoke. Again we reduced taxes, and prosperity proceeded to gain all the time. People were thoroughly prosperous. The third time we reduced taxes, and we got more revenue than we had under the higher rates.

Four times we reduced taxes, until less than 2 percent of the people paid any income taxes at all. We paid \$1,000,000,000 on the national debt each year for 10 years. So I say I was trained in a philosophy that puts your country in a solvent condition.

Then came the black war of the Democratic Party under Woodrow Wilson. Now we have come along to this bill, H. R. 4473. But the best that we have been able to do year in and year out is that over 20 revenue bills have been passed. We talk about taxation stopping inflation; it is perfectly silly. If over 20 revenue bills, and this one, if passed, added to them, will not stop inflation or slow it up at all, what are you going to do with this tax bill, and after this will it be another tax bill? To do what? Cure inflation? No, Mr. Chairman, we are just like a dog chasing its tail; he just cannot catch it. All the tax bills you may bring in here will not stop inflation at all, for the spending is going on day after day, money poured in here and poured in there, and poured out abroad, where it simply cannot do any good at all. No, Mr. Chairman, we are simply going to pauperize foreign people. We are not helping them by leading our foreign neighbors to believe that from now on they are our "poor relations."

I can speak of this question of economy because I challenge any man in the House to show where I have voted for one single thing, one single item that could cause inflation. I have an economy record and every Member knows that my record is one of economy. I have done my best to save even down to the point of not using all my secretarial allowance, but turning a part of it back into the Treasury. I have even turned in my unused mileage into the Treasury. This question of economy should begin at home; it is a responsibility not only of the Congress but of every man in this Congress to save money for the taxpayers. Then you will not have these great huge tax bills here for which the Members blush. Every time you mention a tax bill every Member on the Democratic side of the aisle blushes to think that he has been responsible for it. I will say this, we are united in our determination to prevent further inflation through unbridled spending, united in our determination to keep faith with the American people by reducing Government spending; united in our determination to preserve our free economy during this crisis.

United in these common objectives, this Eighty-second Congress can make its mark on the history of our Republic.

Reductions in Government spending have already been made by this great body. Further cuts have been assured and when made will make H. R. 4473 excessive taxation without justification.

The time for this Congress to cry "Halt" to nonmilitary Government spending is now—not after passage of H. R. 4473 which imposes on the people \$20,000,000,000 more in taxes than was ever imposed during World War II.

By recommitting this bill we will show the American people that this Congress has demanded the same sacrifice and control in the spending of their money by the Federal Government as the Federal Government has imposed upon the people.

The American people are asking that this be done.

They are asking that this Congress reduce Government spending before imposing higher taxes.

This is the issue before the Congress.

The American people are waiting and watching for your answer.

You must not fail them when we vote in a few minutes.

(Mr. HOLIFIELD asked and was given permission to extend his remarks at this point in the RECORD.)

MAJOR ISSUES IN THE DEBATE ON THE TAX BILL

Mr. HOLIFIELD. Mr. Chairman, (A) do we need higher taxes in the amount of at least \$7,000,000,000 at this time?

First. Even if the bill becomes law in its present form and is in effect by the 1st of September on individuals and is retroactive to January 1 on corporations, the total tax collections for next fiscal year would be around \$66,000,000,000—committee report, page 2. This would still require a reduction in the budget of between \$4,000,000,000 and \$5,000,000,000 if we are to avoid deficit financing.

Second. Nearly 5 months ago, President Truman, in his special tax message, gave us the soundest advice on this subject:

It is my firm conviction that we should pay for these expenditures as we go. A balanced budget now is just as important a mobilization measure as larger Armed Forces, allocations of basic materials, and controls over prices.

Third. Yesterday the distinguished gentleman from New York, the ranking Republican member of the Committee on Ways and Means and long a recognized Republican authority on taxation and fiscal policy, asserted that we don't need higher taxes now, and he based his argument on the assumption that at least \$8,000,000,000 can safely be cut from the present budget. Although this would still leave a deficit, he says, of \$2,500,000,000 for fiscal 1952, the gentleman from New York asserts, and I quote his remarks on page 7056 of the RECORD of yesterday:

This is the sound position. This is the American position. This is the Republican position.

Fourth. This opposition to higher taxes is not in accord with the conservative business thinking of the country. As the gentleman from Pennsylvania [Mr. EBERHARTER] has pointed out this morning, most of the leaders of business organizations appearing in opposition to the continuation of price and wage controls before the Committee on Banking and Currency of the House and Senate have urged the enactment of higher taxes as a basic anti-inflationary weapon. The president of the National Association of Manufacturers, when asked how much taxes should be increased, gave this response just last month:

We realize that probably no one knows the amount of additional revenue that is going to be needed. We think it is bound to come to a minimum of \$10,000,000,000, and perhaps closer to \$25,000,000,000 annually, and we hope that Congress will raise that money by taxes in some way, and certainly not continue the disastrous deficit spending. (Hearings before the Senate Committee on Banking and Currency on S. 1397, pt. 2, p. 1171.)

And, as the gentleman from Arkansas pointed out yesterday, the gentleman from New York himself told this House on September 22, 1950:

The most serious problem, however, will have to be faced when our war expenditures move into high gear and it will then undoubtedly be necessary to raise an additional \$10,000,000,000 or more if we are to attempt to meet our increasing expenditures on a pay-as-you-go basis, as indeed we must.

Fifth. Which is the sounder position, then—that we recognize that at least \$7,000,000,000 in additional taxes are necessary to finance the defense effort or the Republican contention that no tax bill is now required?

(B) Is there anything unfair about the 12½ percent across-the-board increase in individual income taxes?

First. In the Republican Eightieth Congress when taxes were being reduced, Republican Members contended that this

was the fairest and most feasible way of reducing taxes. If it was good while we are cutting taxes, why isn't it just as good as we raise them?

Second. This flat percentage method, but at a 10-percent rate, was, as I understand it, first advocated in the Committee on Ways and Means by a Republican member, and as the gentleman from Pennsylvania [Mr. EBERHARTER] has pointed out, the difference in taxes paid for persons in each bracket would be relatively slight.

Third. The 12½ percent flat percentage increase—which is merely a one-eighth increase in personal tax liability—has the advantage of insuring that the lower-income brackets pay no greater share of the total tax burden than they do under existing law.

Fourth. Anyone who proposes an alternative method of raising the same amount of money will probably find that it would hit the lower-income groups harder than the present bill.

Fifth. And just what do the Republicans now propose as an alternative if they object to an across-the-board percentage increase?

(C) Is there anything unfair about the tax increases on corporations?

First. The Republicans object because three-fourths of a billion dollars in additional revenue is being derived from an adjustment in the excess-profits tax on corporations. These are the 22,000 most prosperous corporations in the country who are reaping over \$50,000,000,000 a year in corporate profits—the highest in history. Even after the additional taxes under this bill, these corporations would have profits of more than double the profits of the peak year of World War II, 1944.

Second. The Republicans claim surprise and they charge that this amendment is unfair to the corporations. However, there were full hearings on this identical proposal less than 6 months ago.

Third. At that time during the consideration of the excess-profits-tax bill, the Republicans were urging that at least a part of the additional corporate tax load should come from higher normal and surtax rates. Now, when in this bill the Democrats propose to get a part of the revenue from an increase in the normal tax and part from the excess-profits tax, they still criticize and complain.

Fourth. Again, just as in the case of the individual income-tax increases, how would the Republicans suggest that we raise from corporations the same amount of money?

(D) Excise taxes: The minority report also criticizes the excise taxes under the bill. But again, they suggest no alternative for collecting an equivalent amount of revenue. Now, finally, how would the Republicans get the same amount of revenue as provided by H. R. 4473?

Since they oppose income taxes on individuals, income taxes on corporations, and excise taxes, is it unfair to conclude that this is the prelude to a

campaign by them for a Federal sales tax?

(E) Are the provisions of this bill based on equality of sacrifice?

First. The minority indicates that the bill is not based on equality of sacrifice. But let us look at the provisions of the bill. Two billion eight hundred million dollars of the additional revenue comes from corporations whose inflated profits have continued to skyrocket; \$1,800,000,000 of the additional individual income tax increase comes from people with incomes of \$5,000 or more; \$232,000,000 comes from those who are today evading taxes on their dividends and corporation interest receipts; \$1,300,000,000 comes from excises, mainly on nonluxury items and from the new tax on gambling.

Second. The distribution of additional revenue under the bill is distributed throughout the tax system and was specifically designed to take a higher proportion of the tax increase from high income individuals and corporations. The charge about equality of sacrifice can only mean that the minority believes that tax increases should be made on the poor and that the wealthy should be comparatively free from contributing to the defense program.

(F) Have we reached the bottom of the barrel?

First. The ranking minority Member states that we have reached the bottom of the barrel. But let us look at the facts.

Second. Corporation incomes are expected to reach the unprecedented levels of \$48,000,000,000 before taxes in calendar year 1951. Even after the tax increases proposed under the bill, corporations will have left about \$20,000,000,000, twice as much as they had left after taxes in World War II.

Third. Individual incomes are at the highest levels in history. We have just emerged from a 5-year period during which the American people benefited from the greatest prosperity we have ever had. The \$2,800,000,000 reduction in their disposable incomes resulting from the provisions of this bill has still left their disposable incomes at a very high level. Since the bill takes 62 percent of the additional \$2,800,000,000 from those with incomes above \$5,000, it cannot be argued that the additional burden will be too heavy. What better method of distributing the additional tax burdens among individuals is there than by way of the individual income tax which is levied on the basis of ability to pay.

(G) Is this bill an invitation to tax avoidance?

First. The minority have argued that the rates in this bill are so high that people will be encouraged to avoid their taxes.

Second. Such an irresponsible statement can only mean that the minority believes that high-income people will not be patriotic enough to contribute their fair share of the taxes needed for the defense effort.

Third. Can anybody seriously argue that the tax rates are too high when they leave a married man with \$100,000

income with more than \$40,000 after taxes?

(H) Is this tax bill inflationary?

First. The minority apparently believes that by reducing the incomes available for spending we are contributing to inflation. What sort of distorted version of economics can this be. Our major problem is to balance the budget so that the Government will not pay out more than it receives.

Second. Much of the credit for the cessation of inflation during the past 2 months is due to the far-sighted action of Congress last year in raising taxes under the Revenue Act of 1950 and the Excess Profits Tax Act. If we did not have a budget balanced in the early part of this year price pressures would have been substantially greater and it would have been difficult to stabilize them.

Third. The success of the stabilization program thus far is proof positive that direct controls and a balanced budget is the only method by which we can stop inflation. This bill will make it possible for us to continue with an effective stabilization program.

Mr. DOUGHTON. Mr. Chairman, I yield such time as he may desire to the gentleman from Massachusetts [Mr. PHILBIN].

Mr. PHILBIN. Mr. Chairman, it is with extreme reluctance that I approach the vote on this measure. There are so many implications in this bill, so many clearly burdensome effects upon the people, upon business, upon the American productive economy that I have the greatest of apprehension concerning the results and impact of the operation of this measure.

Three things are immediately apparent from a candid analysis of this bill.

First. In the light of present emergency conditions facing the Nation and gravely threatening our security, we must conclude that Congress must provide the financial means adequately to defend the United States.

Second. That until the emergency should become worse and involve us in all-out war—which God forbid—it is highly desirable, indeed of paramount importance, that we should raise all financial means required to this end under a pay-as-you-go policy. This will be difficult, I know. This will call for great sacrifices by our people, for unprecedented burdens upon every class and group.

Third. We should strive in every way available to us to impose taxes in such a manner that the burdens, however onerous, are equitably distributed on the principle of ability to pay, and that no fundamental impairment of our great, energetic, productive forces of free private enterprise will occur.

Frankly, I am not satisfied in my mind that this bill will meet all these standards. I regret and deplore many provisions which lay such oppressive burdens on the people and on business, large and small. I dislike the high levies on all our taxpayers. I regret the many nuisance excise taxes which will be onerous in their effects. On the whole, I am most unhappy that we cannot, under the

rules of the House, change and amend many of these objectionable features.

But we have no such choice. If we do not vote for this bill we will have to seek other alternatives that may be even more unpleasant, more burdensome, more obnoxious to the country. In my opinion we must raise revenue for this world emergency and we must do it now. We must meet the challenge of our potential enemies. We cannot flinch or delay. We cannot trifle with the grave needs of the present. We cannot add to the national debt at this time. We cannot now embark upon further deficit spending with all its very grave implications. For these reasons, briefly, I have outlined some of my views on this bill. While I regret the necessity for such sweeping and drastic taxation at this time, in the interest of security, and solvency, and ordered fiscal policy, I am constrained to vote for the bill.

(Mr. PHILBIN asked and was given permission to revise and extend his remarks.)

Mr. DOUGHTON. Mr. Chairman, I yield the gentleman from Massachusetts [Mr. McCORMACK] the balance of the time on this side.

(Mr. McCORMACK asked and was given permission to revise and extend his remarks.)

Mr. McCORMACK. Mr. Chairman, we have heard a lot during this debate about reducing the cost of Government. Each and every one of us agrees with that where it can properly be done. Yet, as I sit here, and hear the speeches and view the votes of all of us, including myself, I realize that it is really a question of fact confronting each and every one of us. I hear some of our friends talk about reducing; yet I have heard them make urgent appeals to increase appropriations, and properly so because it concerns their district. The thought has run through my mind that there is at least a practical inconsistency there.

We must bear in mind that 83 to 84 percent of every dollar appropriated by the Congress goes for our national security and our national defense, preparing ourselves for future events in case war should take place, because we have got to be prepared. We cannot prepare after war occurs. Also it is for the payment of past wars. Seventeen percent of the budget estimates and recommendations go for the payment of the general conduct of Government.

So we are faced with a situation, and it is a practical one, that 83 cents of every dollar we appropriate is in connection with past wars or obligations incurred as the result of past wars, taking care of our veterans in hospitals, the payment of pensions and compensation, payment of interest on the national debt, because all of our national debt except \$40,000,000,000 was incurred in connection with preserving our country and our liberties as a result of World War II; also in preparation for anything that might occur in the future and in order that America might be so powerful in the world of today that we hope the power of America will deter any aggressive act on the part of a potential enemy which might lead to a third world war.

During the next year we will spend \$60,500,000,000 for our national security. Who would dare reduce that substantially? Who would dare strike down a 95-wing Air Force to 70 or 60 or 50 in light of the conditions in the world today? That \$60,500,000,000 which we will spend during the next fiscal year will provide a military establishment of 3,472,000, it will provide for a 95-wing Air Force, it will provide for a 1,161-ship Navy.

There are many outstanding Members of the Congress, and I cannot close my eyes and my mind to their thoughts and to their arguments, who think that instead of a 95-wing Air Force we should have a 150-wing Air Force. What does that mean in connection with appropriations on the part of the Congress of the United States?

I have heard arguments about a straight motion to recommit. If a motion to recommit is made with instructions, that is one thing, because that is an assumption of responsibility. A straight motion to recommit is an abdication, in the light of the situation confronting us, of the responsibilities of one of the two major parties in this country. If you recommit, what is going to be the result? In my opinion there will be no tax bill at all. The provisions in the tax bill are not entirely satisfactory in every respect to every one of us. Certainly from an over-all angle it represents the best collective judgment that could be obtained from the 25 members of the Committee on Ways and Means.

Mr. Chairman, I know what a hard task it is to conduct hearings on a tax bill. I know how difficult it is in executive session, because for 10 years, as you know, I was a member of the Committee on Ways and Means, and I sat in on five tax bills. It is not an easy task, with the pressures that are exerted upon individual members of that committee, and with the other influences that come in the direction of those who are members of that committee. I therefore urge that the Members vote against the motion to recommit, because that is an abdication of responsibility on the part of all of us, are I see it, without regard to party. Even if one were opposed to the bill, he could vote against recommitment and be consistent. They could say, "We recognize we have got to have additional revenue" and while they might not be satisfied with this bill to the extent that they could, in conscience, vote for it, they ought to realize that sending it back to the committee means no bill at all, and as every one of us realizes, additional revenue in the national interest of our country is absolutely necessary at this time. So, any Member who might feel constrained to vote against it would be voting in a consistent manner if he or she voted against a straight motion to recommit, which simply means sending the bill back to the committee. It is my strong opinion that if that happens there will be no tax bill this year, and whether or not we agree with this bill, we ought to recognize the fact that in the national interest of our country a tax bill of some kind is necessary. If this bill goes back to the committee it is a

repudiation of what is contained in the bill from the over-all angle. If it goes back, where are you going to get a source of new revenue? It is either going to be a sales tax or a general manufacturers' excise tax. Honesty would permit you to say that if we are going to recommit, we ought to state to the country why you are recommitting. We should have the courage to say that some taxes provided for in this bill are wrong and that some other kind of tax is right, and we should assume our responsibility, that is, those who vote for recommitment, by telling the country what you believe should be contained in a tax bill.

I think most of the Members here are overwhelmingly opposed to a sales tax. I think the great majority of the Members are opposed to a general manufacturers' excise tax. Personally I am not. I advocated a general manufacturer's excise tax in 1930. It came out of the Committee on Ways and Means in the tax bill of 1930 and it was stricken out on the floor of the House. I am probably one of the few Members of the House who publicly stated that I favored a general manufacturers' excise tax, but I recognize the fact that the great majority of the Members do not, in the exercise of their judgment, and I respect their views. If this bill goes back to committee, in all honesty, one should come out. I do not think one can come out under the circumstances, but if one does, if the provisions in this bill are repudiated, the only place that can be tapped now is through the medium of a general manufacturers' excise tax or a general sales tax.

I have heard the cry of socialism raised against this bill. That cry could be directed against other legislation much better than against the tax bill. This is a defense tax bill. These taxes are being imposed for defense purposes. Over and above everything is the United States of America as a country.

We talk about our personal liberty, which we all prize and treasure, but if Communists take over our country, personal liberty would be destroyed and slavery of the individual would take place.

We talk about business, yes, and I am for business, big and little. I am not against any segment of American society. I want to preserve and strengthen every one of them. But if we fail to do the things we ought to do now, and as the result of it the thing happens that is too dreadful even to picture, then what good is the property of anyone, what good is the business of anyone? You have to have a country before you can have a business. You have to have a country before you can enjoy the blessings of personal liberty.

This tax bill is vitally important to you and me as Members of Congress, picked out from our constituencies as we have been through election, charged with direct responsibility as we are, doing those things we ought to do in this emergency not only to preserve our country but to strengthen it, as a contribution toward the national interest and security of the United States of America and a contribution toward future world peace.

Yes, if we fail, communism dominates, and with communism comes enslavement of the people and the destruction of everything that each and every one of us holds near and dear. We might differ as individuals on this bill or that bill, but each and every one of us fundamentally believes in and loves our institutions of Government. We believe in those words contained in the Declaration of Independence and in the Constitution of the United States. Yes, we may disagree on this or that, as I have said, but each and every one of us, without regard to party, are charged now in this world crisis with the responsibility of doing those things that will be for the best interests of our country and for the best interests of future peace.

As I see it, and I repeat what I have said before, there is only one thing the Communists, Stalin and his gang, respect. The only thing they respect is what they fear, and the only thing they fear is power greater than they possess. This bill is one of the instruments, not all, but one of the instruments by and through which we create power in America, power for good, power for peace, power to stop evil, power to deter evil. This bill, as I see it, is one of the necessary instruments to that end.

I recognize that not a one of us agrees with every particular provision of the bill, but that is not necessary to vote for the bill. I have heard no Member, even those opposing the bill, say that they take the position that the raising of taxes now is not for the national interest of our country. Everyone agrees that a tax bill should be passed. This bill is before us as the result of months of consideration. We are faced with a situation of a straight motion to recommit. As I have said, that amounts to an abdication of individual responsibility and of party responsibility to send the bill back with the knowledge that if the motion succeeds, the strong probabilities are that no tax bill will come out because you and I know it will take many, many months, and you and I know the practical problems confronting the Committee on Ways and Means. If this bill is recommitted, it is done for this year at least, and probably done for the remainder of the session.

So I strongly urge my colleagues to respond to the world emergency and to recognize our country has a rendezvous with destiny; that it is either our leadership which will prevail—as the great President of Ecuador said from this rostrum the other day—the leadership of those who believe in God and what He stands for and the spiritual aspects of life—either our leadership is going to prevail or the leadership of destruction will prevail. I have every confidence and every feeling of optimism that we will prevail. I have no feeling of fear in the ultimate outcome, if we only do the things we ought to do now, because this is the most dangerous period in the life of the democracy. Based upon my experience, I have had implanted in my mind the thought—and it will always remain there—that the most dangerous period in the life of a democracy is when danger is imminent. That is the time when we can conjure our hopes and

say, "This will not happen," or "This will happen." "War will not take place." I hope it will not take place, but we have to be prepared if it does and we have to be prepared to stop it because, as I have said, and I repeat, the only things the Communists respect is what they fear, and the only thing they fear is power greater than theirs.

This bill is necessary to avoid deficit spending. This bill is necessary to obtain revenue to increase the strength and power of America and of our allies of the still remaining free world. With the right kind of leadership in America and with the leadership of other free countries responding and cooperating, with all of us doing the things we ought to do, I have every feeling of confidence as to the outcome and that we will succeed. The passage of this bill is one of the instrumentalities in the future success of our country. It is in the interest of our national security. It is in the interest of future peace.

The CHAIRMAN. The gentleman from Massachusetts has consumed 19 minutes.

Mr. CURTIS of Nebraska. Mr. Chairman, I wish to insert in the CONGRESSIONAL RECORD an exchange of correspondence between myself and the Secretary of the Treasury which greatly disturbs me. This correspondence relates in particular to the tax treatment of family partnership cases, but I am far more concerned over the dangerous implications of this exchange of correspondence than I am over any particular tax question that has ever come before this Congress.

The proper development of tax laws in this Congress is essential to the lasting security of this country. This development must be through a democratic process. A continuing danger is that the increasing complexities of our expanding economy, together with increasing needs for revenue may make tax laws so complicated that the policy makers are lost, and only the technicians understand them. When this happens the technicians then have the power to make policy, and our democratic process fails. To avoid this result, we of the Ways and Means Committee require the greatest cooperation from the Treasury Department which, in many instances, is called upon to give us technical advice and assistance.

This exchange of correspondence which I am inserting in the RECORD pertains to an issue which is, in itself, relatively minor in relation to all of the many tax questions now before us. It is an issue on which the policy which I and others on the Ways and Means Committee advocate differs from the wishes of the Legislative Counsel of the Treasury. I wrote the Treasury on March 1, 1951, asking for some technical advice. All of the questions asked could readily have been answered in the Bureau of Internal Revenue within a few days. It was 81 days before I received a reply, and that reply was given to me on May 21, 1951, just as I was going into a meeting of the Ways and Means Committee which was to discuss this particular question.

The letter was completely evasive, and I am by no means alone in my opinion that it represents a studied effort by the technicians at confusion and evasion. This, coupled with the long delay, suggests that the answer was withheld for 81 days in order to prevent any consideration of the answer prior to action by the Ways and Means Committee on the question.

This charge is not made without the most serious consideration on my part. It is not a charge against the Secretary of the Treasury for he, like ourselves, must necessarily call upon his technicians for advice. This invidious attempt on the part of Treasury technicians to take advantage of technicalities so as to control policy should be of greatest concern to this Congress and will, I hope, receive the attention also of the Secretary of the Treasury.

MARCH 1, 1951.

HON. JOHN W. SNYDER,

Secretary of the Treasury,

Washington, D. C.

DEAR SECRETARY SNYDER: You are aware that there have been widespread complaints as to the uncertainty, confusion, and conflict in the administrative and judicial treatment of family partnerships. Numbers of complaints have come to me from persons in Nebraska who are urging that legislation is necessary to remedy the present confusion. It is contended that the Commissioner and the tax court, for income tax purposes, are disregarding bona fide transfers of partnership interests, while at the same time gift taxes are being collected on such transfers.

I would like to have a clear understanding of the present Treasury policy in these cases. As an aid to my understanding of that policy, I shall present certain hypothetical cases which seem to illustrate the major facets of the problem as it is presented to me. It should be of great service to our committee if you will be good enough to answer the several questions directed to the hypothetical cases stated.

For the purpose of all of the cases stated, I wish you to make the following assumptions which should be kept clearly in mind:

1. That every transaction in each case was bona fide, that is, the facts were exactly what they purported to be. If it is stated that a gift was made, let it be assumed that it is real and that there were no secret agreements or understandings varying in any way the stated terms of any transaction.

(In this connection I am, of course, quite aware that many transactions between members of a family group are not what they purport to be. Where a purported gift between husband and wife or children is involved, whether the subject matter be stock or bonds or real estate or a partnership interest, it is much more likely to be a sham and a fraud upon creditors or the Treasury than are transactions between strangers. It is, of course, assumed that in any case you would be authorized to inquire fully into the question of bona fides and that after such investigation any transaction will be treated as what it really is rather than what it purported to be. But in considering the cases here, I am asking you to assume that a full investigation has been made by you and has disclosed complete bona fides.)

2. That a desire to save taxes along with the desire to benefit the donee was present in each case and helped to motivate the transaction.

3. That the donees in each case were persons without any business ability, that they had no interest in helping in the running of any business, and that they relied upon the donor to handle any property they might

own from whatever source derived.

4. That neither the transfer to the donee, nor the bringing of the donee into partnership with the donor, in any way improved the business situation that would have existed if the same capital had been in the business and had all been owned by the donor; and that the transfers were not made and that the partnerships were not formed with any thought that the credit or the standing of the donee would improve the business situation which would have existed if the same business with the same total capital had remained in the ownership of the donor.

5. That the donee did not perform any services and was not expected at the time of the donation or the time of the formation of the partnership to perform any services for the business, nor to participate in its management.

6. That a gift-tax return was made reporting each transfer and that in each case the gift-tax return was investigated by the Commissioner, a slight increase in value determined, and additional gift tax paid.

7. That notwithstanding the fact that other members of the family took no interest in the conduct of the business and did not attempt to advise in any way with reference to it, the donor at all times recognized each donee's proprietary interest in the business and the right of the donee to participate in the management of the business to the full extent that the law would allow under the partnership agreement, and that at no time did the donor commit any act which discriminated against their interests or which was inconsistent with his fiduciary obligation as managing partner.

It is very important that all the questions be answered on the basis of the foregoing assumptions. Any answer which presupposes any bad faith whatever on the part of the donor or any intention whatever on the part of any party that any transaction stated should be in any way other than what it purports to be, will cause your answers to be meaningless; because I am not directing my questions to any case where there is any sort of fraud to be perpetrated.

The following are the hypothetical cases to which my questions are directed:

CASE NO. 1

In 1930, Smith organized a manufacturing corporation with a capital of \$10,000. He was the sole stockholder. The business was quite successful. After payment of salaries and dividends to Smith during the 10-year period to 1940, the net worth of the corporation was \$100,000. He then made a gift to his wife of 10 percent of the stock. In 1941, the corporation paid a \$30,000 salary to Smith, and had net income of \$50,000. It paid a \$10,000 dividend. Mrs. Smith received \$1,000, and chose to purchase a fur coat. The Commissioner determined that a reasonable salary for Smith for 1941 was \$20,000, and the corporation paid a deficiency tax on the \$10,000 disallowance. The 10-percent stock given to Mrs. Smith was issued to her, and kept by her in her own vault.

CASE NO. 2

On December 31, 1941, the corporation discussed in case No. 1 above was liquidated. Pursuant to direction to the stockholders, all assets subject to liabilities were transferred to the Smith Co., a partnership. The net liquidating dividend was \$120,000, which then comprised the capital of the partnership. Smith's capital was \$108,000; Mrs. Smith's was \$12,000. Smith was to draw a \$20,000 salary, and the remaining profits were to be divided 90-10. Smith was designated as the managing partner with the right to manage the business affairs and to determine the amount of profits which could be distributed each year. Any distribution, however, was to be made in the ratio of 90-10. The partnership was to remain in

effect for 5 years. During 1942, the partnership earned \$50,000, of which \$20,000 was paid to Smith as salary, and the remaining \$30,000 was credited to the partners' capital accounts in the amounts of \$27,000 and \$3,000. Smith determined that \$20,000 should be distributed of which he received \$18,000, and Mrs. Smith received \$2,000. Mrs. Smith deposited the \$2,000 in her separate bank account. All persons dealing with the company were advised that Mr. and Mrs. Smith were partners.

CASE NO. 3

On December 31, 1942, the capital of the partnership was \$130,000, of which \$117,000 was credited to Smith and \$13,000 to Mrs. Smith. At that time the Smiths' two children were—a daughter, Mary S. Jones, 21 years old, married and living with her husband, and John Smith, Jr., 17 years old and attending college.

After several conversations between Mr. and Mrs. Smith about the matter, Mr. Smith explained to both children that he wanted to make gifts to them of an interest in the business, so that they would have a source of independent income. Mary, being an adult, was to receive her share outright. John's share was to be placed in trust with the income to be accumulated until he was 21, at which time he was to receive his interest outright. Mrs. Smith was to be the trustee. Accordingly, a trust agreement was executed which we will assume is entirely valid under the Clifford case and the appropriate Treasury regulations. Mr. Smith also told his wife that he wanted to increase her interest in the business.

A new partnership agreement was signed on December 21, 1942, under which Mr. Smith was to receive \$25,000 salary plus 60 percent of the partnership profits; Mrs. Smith was to receive 20 percent; Mary S. Jones, 10 percent; and the John Smith, Jr., Trust, 10 percent. Mr. Smith's management rights were the same as in the prior agreement. The new partnership was duly registered and publicized. The capital accounts of the new partnership were as follows: Mr. Smith, \$78,000; Mrs. Smith, \$26,000; Mary S. Jones, \$13,000; John Smith, Jr., Trust, \$13,000. For the year 1943, the partnership earned \$75,000, of which \$25,000 was paid to Mr. Smith as salary. The balance was credited to the capital accounts as follows: Mr. Smith, \$30,000; Mrs. Smith, \$10,000; Mary S. Jones, \$5,000; John Smith, Jr., Trust, \$5,000. Shortly after the end of the year, Mr. Smith decided that the business needed \$20,000 of the 1943 income as working capital, and the partnership, therefore, distributed \$30,000 to the partners, as follows: Mr. Smith, \$18,000; Mrs. Smith, \$6,000; Mary S. Jones, \$3,000; John Smith, Jr., Trust, \$3,000.

The following are the questions which I would like to have answered:

Question 1, relating to case No. 1: Was the \$1,000 dividend received by Mrs. Smith in 1941 reportable as her income, or was it reportable as the income of Mr. Smith?

Question 2, relating to case No. 2: Was the \$3,000 credited to Mrs. Smith reportable in her income for 1942, or was it reportable in the income of Mr. Smith?

Question 3, relating to case No. 3: Was the \$10,000 credited to Mrs. Smith reportable in her income for 1943, or was it reportable in the income of Mr. Smith?

Question 4, relating to case No. 3: Was the \$5,000 credited to Mrs. Jones reportable in her income for 1943, or was it reportable in the income of Mr. Smith?

Question 5, relating to case No. 3: Was the \$5,000 credited to John Smith, Jr., Trust reportable in the income for 1943, or was it reportable in the income of Mr. Smith?

Question 6: If your answer to any of the above questions should be that any of the amounts referred to is taxable to the donor

and not to the donee, please explain fully the reason for your answer.

I assume that questions identical with those stated have had so much attention in the department that they can be answered without the necessity of any research. I shall appreciate it, therefore, if you will let me have a prompt reply so I may proceed immediately to take this problem up with my committee.

Sincerely yours,

CARL T. CURTIS.

TREASURY DEPARTMENT,
Washington, May 21, 1951.

Hon. CARL T. CURTIS,
House of Representatives,
New House Office Building,
Washington, D. C.

MY DEAR MR. CURTIS: Reference is made to your letter of March 1, 1951, in which you pose certain questions relating to assumed hypothetical situations in the family partnership field. You suggest that complaints have been made of confusion and conflict in the field and of the need for legislation. It is also suggested that bona fide transfers of partnership interests have been disregarded for income-tax purposes although gift taxes are levied in such transfers.

It may be well to discuss briefly the last point first. As you know, gift taxes are historically taxes on the transfer of property and have in general followed property-law concepts. On the other hand, the income tax is less related to concepts of title to property than it is to taxing income to the person who earned it. Thus, short of exact correlation between the two taxes, it is possible for a gift to be effective for one purpose and not for another. Moreover, in point of fact, gift taxes on the transfer of partnership interests have been paid voluntarily by donors, with the intent to use such payment as evidence that the transfer was bona fide for income-tax purposes, which it may or may not be. Later controversy over the taxation of partnership income not infrequently finds that the statute of limitations has run to prevent a refund of the gift tax paid even though it appears that no effective gift had been made.

With reference to the five questions concerning the family-partnership situations (and the dividend received by Mrs. Smith as a result of stock transferred to her by her husband), it is noted that you request initially that it be assumed that "every transaction in each case was bona fide." This assumption, as you know, goes to the heart of the controversy in every family-partnership situation and thus assumes the very answer which is being sought. You will recall that the Supreme Court in the Culbertson case stated the question in such cases generally to be "whether, considering all the facts, the parties in good faith and acting with a business purpose intended to join together in the present conduct of the enterprise." All tests are thus directed toward the question of whether the partners in good faith intended to form a valid partnership for income-tax purposes. Since, by your letter we must assume good faith in every transaction, the meaningful question at the root of all family-partnership controversies is answer by assumption.

As you know, this question is one of fact and which under the Culbertson decision, must be discovered from all the circumstances in the case. Some pertinent factors which may come into play in the discovery of that factual question are the actual distribution of income and the measure of its allocation, the participation by the donee in management and conduct of the business, the retention of controls by the donor and whether he was influenced solely by tax avoidance motives in admitting the

donee as a partner. The question is thus whether, taking all such factors into account, the partnership is real or merely a device for income-tax avoidance purposes. As you may recall, this was one of the very real difficulties the Department found with the amendment proposed last year, in that it removed from the scope of consideration in determining good faith several important factors. Since the question is one of fact, the scope of inquiry is seriously crippled unless all the circumstances can be taken into account.

It is doubtless true that the family partnership area has been a controversial one. It is the feeling of the Department, however, that much of the controversy has arisen from the fact that, as you indicate, "many transactions between members of a family group are not what they seem," and many taxpayers have not hesitated to use an ostensible family partnership, which did not alter real relationships, as an income-tax device. It is the belief of the Department that the opinion of the Supreme Court in the Culbertson case provides realistic and workable rules which will foreclose use of the partnership device to those who do not in good faith enter into the arrangement and which will also recognize bona fide partnerships.

Moreover, the Department has in recent months had the family partnership problem under intensive study with a view to issuing instructions to the revenue agents for their guidance in examining such partnerships. The study has included a sampling of typical cases recently pending in field offices and of the judgment of the field personnel with respect to such cases. A similar study was made with respect to the facts and decisions in family partnership cases decided in the Tax Court and in the District courts during the year 1950. The information thus obtained will be used to provide any clarification of the Bureau position which would appear desirable. It is anticipated that any instructions on the subject will be agreed upon and issued in the near future.

Very truly yours,

THOMAS J. LYNCH,
Acting Secretary of the Treasury.

MR. BENDER. Mr. Chairman, the House Ways and Means Committee, which is a congressional branch of the White House, as far as its majority membership is concerned, is working out a new tax measure based upon the same old theory. It is operating on the belief that all you have to do is to figure out ways and means of raising new taxes to meet expenditures, and that's the answer.

For some reason, it never appears to have occurred to some of our legislative Democratic leaders that you might not have to wrack your brains to dig up new taxes or increase old ones if you cut down some of the things you buy. The minority of the committee, speaking for the Republican position, has declared that—

The Truman administration is under the false illusion that pay-as-we-go means only a one-way street of ever-increasing expenditures paved with higher taxes.

To counteract this approach, the minority has urged an immediate 10-percent cut in all nonmilitary spending and the simultaneous elimination of all unnecessary spending by the military forces as well. The report of the Republican group calls attention to the fact that the present Government has done nothing to promote economy in

administrative expenditures, or even to look for them:

The plain facts are that additional sources of revenue to pay for President Truman's \$71,600,000,000 expenditure budget for fiscal 1952 are not available under any sound tax program.

Sweat on, Mr. Taxpayer, sweat on.

Mr. FELLOWS. Mr. Chairman, it may be that there are places where people never knew or have forgotten their unalienable rights. There are those perhaps who do not appreciate or fail to perform the duties their citizenship here entails, but in Maine—in New England—folk are slow to rouse but impossible to silence once they realize their freedom is menaced. The energetic and salty characters who shattered the quiet of nature with the blows of their axes to carve out of the wilderness a new Nation dedicated to liberty know what is what and give not a continental who is who. Uncompromising Americanism is our natural resource, and down-Easters remain, now as always, I like to believe, like the pines on their hillsides: Rugged, clean, undaunted, and, in their faith, ever green. Enterprise is any project involving activity, courage, energy or the like. It is a bold, arduous attempt, and Maine people still believe, pray God, that individuals should be free from unnecessary restraints of government to make that attempt to improve their lot by exercising those qualities. We admire—not envy—courage, energy, and initiative, and applaud the successful.

The idea and ideal that our forefathers were entitled to life, liberty, and property preceded any reference to pursuit of happiness.

It was upon the firm foundation of property rights that the independence of this Nation was built. Almost 200 years ago, February 1761, a stalwart but slow-to-rouse New Englander, James Otis, of Massachusetts, electrified his countrymen by his oratory opposing writs of assistance. He denied any man has the right to take another's property on any pretext whatsoever. Government's only excuse for existence is protection of the rights of the individual, and only the person or his representative can waive those rights. Taxation can be confiscation.

"Nothing in religion or government ever touched to the quick the people of all classes in any country, like taxation." It was on the firm foundation of property rights that the independence of this Nation was built. Why, from the day an infant first learns to yell 'I want my mama' until the probate court gives consideration to his last will and testament, his property is his paramount thought. The intrinsic value of his mama as a person is not the basis for the child's cry. The important fact is that she is his.

No act of government is more universal in its impact than taxation, and whether one be rich or poor the assault upon his pocketbook is like a blow upon his elbow, unless he be foolish or embalmed, the response is immediate.

Imagine the shriek of a hungry man when his bread is snatched from his hand. Hear the howl of a woodsman

whose axe has been taken. Is it less angry and more controlled than the reaction of a millionaire whose estate has been confiscated?

James Harrington wrote that—

Domestic government is founded on dominion, and dominion is property—real or personal; that is to say, in lands, or in money and goods.

A government whose foreign policy appears to be based on fear and whose ever-increasing demands upon the earnings and savings of the people reflect a disregard for the rights and needs of those whose servant it is can be stopped in its tracks only by a revolt of the citizens through their legally elected Representatives. As the Representative of all the people of the Third District of Maine—rich and poor—and most of them are not rich—I do not consent to a picking of their pockets by a Government which is wasteful, wanton, and cynical in its disregard of the will of the people and of their Congress.

When the day arrives that fear is the controlling emotion of the citizens, as it now appears to be of the Government—when a yell of anguish fails to follow close upon attacks by government upon the property rights of the governed, then indeed is all hope lost. I oppose this tax bill as risky, if not ruinous. God help America.

Mr. DONOHUE. Mr. Chairman, with great reluctance, I am going to support and vote in favor of this revenue bill, because there is no other choice. As you know, this measure is not subject to amendments and there is no substitute proposal to be offered. It is either this bill or no tax bill. All authorities agree that, under the desperate circumstances facing us now and the imperative need for defense preparations, we must have more money immediately. Unpleasant as my action will be I consider it a duty, at this emergency period of our history. I have never shirked a conscientious duty, and I do not intend to begin now.

My personal reluctance in supporting this measure is because I know full well the present burden already resting heavily on the shoulders of the American taxpayers, particularly those in the medium and low income brackets.

However, I very deeply feel all Americans recognize the imperative need for additional revenue to finance our defense program and to resist the threat of Communist aggression now threatening the free world with slave bondage or total destruction.

One of the chief reasons, in my opinion, we must accept this bill, and that it is practically wise to do so, is because the only alternative is the evil resort to deficit financing. I am convinced the great majority of our people would favor the adoption of the lesser evil of providing for additional revenue.

Another substantial reason for my supporting action is that the bill inherently will require the Congress, the President and the Budget Bureau officials to work out a method of real reduction in Government expenditures. This feature of the measure gives me a genuine feeling of enthusiasm because it means an attempt must be made to afford the tax-

payer some relief. The situation I am describing comes about in this way.

You will recall that originally the Secretary of the Treasury asked for \$10,000,000,000 of additional revenue which is the amount that will be necessary unless pending appropriations are cut below the amount of the budget. This bill provides \$5,000,000,000 in the next fiscal year. Therefore, with the enactment of this measure there is fortunately the compelling obligation to reduce future appropriations by \$5,000,000,000 to come out even and have a balanced budget. I earnestly believe that this Congress can and must accomplish such a reduction in order to keep faith with the American people.

As one who has long been on public record as being in substantial agreement and vigorous support of the Hoover Commission recommendations, I am personally enthused with the prospect of helping to achieve the adoption of the remaining Hoover Commission plans to sensibly cut our extravagant Federal spending. I know that the House Committee on Expenditures in the Executive Departments, of which I am a member, did a good job of encouraging enactment of almost half of the Hoover economy proposals in the last Congress and, we are going to continue our energetic, persistent efforts to gain approval of the rest of the Hoover reorganization plans in this Congress. I am very proud of my membership on this committee.

I would feel derelict in my obligation if I did not briefly speak, once again, on the deficiencies of our over-all antiquated tax system. Since becoming a Member of Congress, I have continually urged that a nonpartisan committee be appointed to thoroughly study and recommend elimination of the existing injustices and overlapping of our spread-eagling, topsy-turvy tax structure which is fast demoralizing the American people. Noted tax experts and authorities have supported my stand in this respect. The conflict, and competition, between the various States and the Federal Government in the collection of taxes is robbing the American taxpayer of his birthright and will bankrupt the country unless we institute corrective steps in the very near future. I have no desire to transgress on the time allotted me, but I do want to emphasize to my colleagues the vital importance of this pressing domestic problem. I intend to talk further on this subject when the time is not limited.

Although our patriotic American taxpayers will be willing to assume the increasing hardship imposed by this new tax bill, I warn you gentlemen they are in no mood to tolerate any continuance of waste, extravagance, duplication, and needless expenditures for nondefense programs. I heartfully urge you to keep this warning in mind when appropriation bills are brought into this House for consideration in the future. I urge you to concentrate on and vote for the elimination of every nonessential item in any appropriation bill that comes before us and also to support and vote for the enactment of all the reasonable economy objectives embodied in the Hoover Com-

mission recommendations. You and I can do no less if we are to be worthy of the trust of the people who sent us here to truly represent them.

Mr. KEATING. Mr. Chairman, this bill has many objectionable features. Among them is the provision for withholding 20 percent of all interest or dividends. This will work a great hardship on pensioners, widows, and others living on modest incomes, who are not subject to income tax and will eventually get a refund from the Government, but who need every cent of their income from week to week to live on.

Also, in some cases, Federal sales taxes have been imposed on specific items without giving the companies making them, or their employees, any right to be heard. This does not seem to me in accord with principles of fair play.

There are many inequities in the excise taxes levied, although I am gratified over the reduction of the excise tax on photographic equipment and clarification of the law in this field, which is naturally a matter of great concern to thousands employed in or connected with the great photographic industry.

There are a number of other good features in this bill about which I have been particularly interested in getting the present law changed. One has to do with the unfair proposition that if you sell your house and take a gain, you must pay a tax on it, but if you take a loss, you cannot charge it off for income-tax purposes. This bill provides that the reporting of any gain from the sale of a residence can be deferred, if the proceeds are used to buy another house, which seems entirely fair.

Another good thing is the exemption from any admissions tax on functions given by nonprofit, religious, educationable, and charitable organizations; the elimination of the discriminatory tax on your electric bill, and tax on baby oils, powders, and lotions, which cannot possibly be considered luxuries in the modern sense.

There are still important tax loopholes that are not plugged in this bill. I hope the final bill, after Senate action and conference, will be an improvement on the measure.

I have exhausted all efforts available at this point to improve the bill and expect to vote to send it back to the committee for that purpose. On the other hand, if that is not done, I shall feel compelled to vote for the measure on final passage.

Although I have supported every one of the 55 amendments offered to reduce figures in the appropriation bills and have opposed each of the 20 amendments offered to increase figures, the fact remains that there is no possibility of balancing the Federal budget, even with this tax bill. If every penny of non-essential spending is eliminated, a result devoutly to be hoped for, but not expected—an additional revenue bill will be needed to finance the defense effort on anything approaching a pay-as-you-go basis. We must not jeopardize our survival as a free nation by failing to provide the sinews of defense—necessary men and material.

The only other way to do it is by going deeper into debt, which is obviously unsound and is bound to fan the fires of inflation, our No. 1 enemy at home.

No one likes taxes. The easy and popular course is to oppose them all. In my judgment, however, that course would not keep faith with the courageous young men who are today gallantly making sacrifices out of all proportion to any involved in a tax bill.

Those who differ with this position undoubtedly do so with the utmost sincerity. I respect their views, but must follow the dictates of my own conscience, as I analyze the problem.

Mr. KERSTEN of Wisconsin. Mr. Chairman, the distinguished majority leader [Mr. McCORMACK] has referred to the gravity of the Soviet threat to our Nation. I thoroughly agree that we are confronted with the greatest crisis in our history. But that crisis has been created in large part by the present administration and its immediate predecessor. The disclosures recently made in the Senate investigation regarding the machinations of our own diplomats that produced the perfidious Yalta Agreement; the stubborn arrogance of Acheson that still refuses to utilize the Chinese Nationalist troops to set the Communists back in China; the failure to implement the European defenses with the anti-Communist troops of Spain and the other anti-Communist forces on that continent; the long record of the Secretary of State that accepts as legitimate the gangster Communist governments of the world—this record together with the profligate financial record of the administration—all of this demonstrates that this administration must make at least two fundamental changes before it can justify its request for still greater finances.

First, it must take a forthright stand against the Communist threat in the field of foreign policy. Any policy that smacks of appeasement cannot succeed, no matter how much money is spent to support it.

Secondly, one of the greatest threats to our security is the attempted prostitution of our economic system by the Fair Deal Socialist planners. The present tax burden on the people of America is tremendous. This new bill presents the greatest tax burden in American history. It is a tax burden that falls overwhelmingly upon the worker and the average American—upon the little taxpayer. The percentage of money raised by this bill from the rich is comparatively small. The average worker's check will pay a very large part of the bill.

Before this profligate administration turns the screws further upon the average American's pocketbook, it should demonstrate its financial responsibility. It should cut out the unnecessary spending. It should cooperate with the minority in seeking to cut the water out of the appropriations.

Unnecessary burdens have already corrupted this Government. The decks should be cleared of all the Socialist dreams and plans that would weaken us as they have weakened Britain. When the administration has demonstrated its

sincerity in the field of foreign affairs to oppose the terrible threat and has demonstrated its sincerity in spending, then it is in a position to ask Americans to pay still further sums of money.

Mr. ANGELL. Mr. Chairman, it is my intention to vote for the motion to recommit this tax bill, and if that fails, to vote against the bill. I am compelled to do this for the following reasons, among others:

First, the time is inopportune now to enact another tax bill due to the fact that there is no definite understanding at the present time as to what our necessary expenditures will be for the next fiscal year. None of the appropriation bills has yet been enacted into law. A number of them have not even been submitted to the House by the Appropriations Committee.

Second, this is the third of three bills proposed within the last year for tax revenues aggregating some \$17,000,000,000. This bill alone is for \$7,200,000,000. It is admitted by the chairman of the Appropriations Committee and practically all members of the committee that we have reached the bottom of the barrel of available tax resources. In fact, the chairman stated on the floor during the discussion of this bill that, in his judgment, it is impossible to raise more revenues by taxation than is provided by this bill and the existing laws.

Third, it is generally conceded that this bill is inflationary rather than deflationary in view of the fact that it makes available for Government spending of over seven billion additional dollars in the markets of our country and of the world for goods available for use either by private citizens or the Government.

Fourth, this administration is the greatest spendthrift administration in all history. It has expended more money than all other administrations prior to it in American history combined. It has based its philosophy upon the principle of tax and tax and spend and spend. The President has said that it is impossible to reduce Government spending and lower the cost of Government and he challenged the Congress to attempt to do so. It is my judgment that, if we are to inaugurate a program of economy in Federal Government and eliminate the flagrant waste that is now taking place and eradicate the dishonesty and the grafting and needless spending of public money by dishonest bureaucrats and public officials, it is necessary to curtail the amounts of tax dollars available to them to spend. In my judgment, there is no other way to compel this administration to bring the Government down to a sound fiscal policy, eliminate waste and graft and useless expenditures, and keep within our income.

Fifth, I am thoroughly in accord with the pay-as-you-go program and, except in cases of extraordinary emergency such as a world-wide war, I believe that each generation should collect the necessary Government revenues to meet Government expenses, and not carry debts over for future generations to pay. However, in the guise of pay-as-you-go, I am not willing to tax the American people with

unnecessary and stupendous taxes as this bill does merely to place in the hands of a spendthrift government the power and opportunity to spend more tax dollars on unessentials.

Sixth, the Congress will be in session except for a short recess until the Eighty-third Congress convenes. There will be ample opportunity after our appropriation bills have been approved to determine the necessary expenditures for the next fiscal year and at that time the Congress can, if necessary, enact any tax legislation needed to cover these expenditures.

Seventh, I believe it is entirely possible for this administration, by eliminating waste and graft and unnecessary expenditures not only in the domestic field but foreign relief and aid and military expenditures, to save the full amount it is intended to be raised by this tax bill. If these curtailments in Government expenditures and the reduction of the costs of Government are made, this bill will be unnecessary. But as I have said if it is found after all the appropriation bills have been approved that some additional tax revenues are needed the Congress then in session can enact the necessary legislation.

Eighth, I have supported all appropriations needed for national defense during my entire 13 years in the Congress and I will continue to do so. However, in the guise of national defense I am not willing to squander the taxpayer's money and put our country in an insolvent condition by appropriating huge sums, as this bill does, for so-called national defense when the administration has not given the Congress proof that the expenditures are necessary for national defense.

Ninth, I am especially opposed to the bill because it is brought in under a closed or so-called gag rule which does not permit the members the right to offer any amendments to correct the many injustices in taxes imposed on certain individuals and groups, under the bill.

Tenth, I have not attempted in the time at my disposal to call attention to these inconsistencies but it might be mentioned in passing the one which exacts from small-income taxpayers receiving often a \$1,000 or \$1,500 a year from dividends a 20-percent withholding tax which in many cases will take food from the mouths of these low income groups. They will not be able to get a refund on these taxes unjustly withheld where no tax is payable until long after the withholdings have been made. A glaring example of the operation of this is seen by the following letter which I have just received from residents of my State of Oregon:

DARIEN, CONN., June 16, 1951.

Hon. H. ANGELL,
Washington, D. C.

DEAR SIR: My wife and I are old. She is 75, and I am 81 years.

We have worked hard and saved carefully all our lives that we might have enough to take care of us during our declining years.

We have a total income from interest and dividends amounting to about \$1,000 a year.

From this you propose to withhold 20 percent.

Unless this bill is defeated we will face stark despair.

We ask you to vote against it.

A. A. BROTHEN,

Mrs. A. A. BROTHEN.

We are registered voters in the West Woodburn district, Oregon.

Eleventh, one of the glaring injustices of the bill is the levying of a 12½ percent additional tax on low-income workers which, together with the present high tax exacted of them will amount in many cases to confiscation and deprive these low-income taxpayers of the meager funds needed for the support of themselves and their families. Under the bill taxes may be exacted which together with local taxes will be over 100 percent of the taxpayers' income.

Mr. Chairman, for these reasons and many others which I have not time to enumerate, it is my purpose to vote to recommit this bill and if that fails to vote against it on final passage.

Mr. DOUGHTON. Mr. Chairman, by direction of the Committee on Ways and Means, I offer four minor amendments. They are for the purpose of making clerical corrections and none of them change the purpose or provisions of the bill.

Therefore, I ask unanimous consent that they be read and considered en bloc.

The CHAIRMAN. Is there objection to the request of the gentleman from North Carolina?

There was no objection.

The Clerk read as follows:

Amendments offered by Mr. DOUGHTON:
On page 17, line 5, strike out "(1)" and insert "(2)."

On page 24, line 23, strike out "decedents" and insert "descendents."

On page 38, line 8, strike out "on or after January 1, 1934."

On page 151, line 23, strike out "1950" and insert "1951."

The amendments were agreed to.

The CHAIRMAN. Under the rule, the Committee will rise.

Accordingly the Committee rose; and the Speaker having resumed the chair, Mr. RAINS, Chairman of the Committee of the Whole House on the State of the Union, reported that the Committee, having had under consideration the bill (H. R. 4473) to provide revenue, and for other purposes, pursuant to House Resolution 262, he reported the bill back to the House with sundry amendments adopted by the Committee of the Whole.

The SPEAKER. Under the rule, the previous question is ordered.

Is a separate vote demanded on any amendment? If not, the Chair will put them en gross.

The amendments were agreed to.

The SPEAKER. The question is on the engrossment and third reading of the bill.

The bill was ordered to be engrossed and read a third time, and was read the third time.

The SPEAKER. The question is on the passage of the bill.

Mr. REED of New York. Mr. Speaker, I offer a motion to recommit.

The SPEAKER. Is the gentleman opposed to the bill?

Mr. REED of New York. I am, sir.

The SPEAKER. The gentleman qualifies. The Clerk will report the motion.

The Clerk read as follows:

Mr. REED of New York moves to recommit the bill H. R. 4473 to the Committee on Ways and Means.

Mr. DOUGHTON. Mr. Speaker, I move the previous question on the motion to recommit.

The previous question was ordered.

The SPEAKER. The question is on the motion to recommit.

Mr. REED of New York. Mr. Speaker, on that I ask for the yeas and nays.

The yeas and nays were ordered.

The question was taken; and there were—yeas 171, nays 220, not voting 41, as follows:

[Roll No. 83]

YEAS—171

Aandahl	Fellows	Meador
Allen, Calif.	Fenton	Miller, Md.
Allen, Ill.	Ford	Miller, Nebr.
Andersen,	Fulton	Miller, N. Y.
H. Carl	Gamble	Morano
Anderson, Calif.	Garmatz	Mumma
Andresen,	Gavin	Nelson
August H.	George	Nicholson
Angell	Golden	O'Hara
Arends	Goodwin	Ostertag
Armstrong	Gross	Patterson
Auchincloss	Gwinn	Phillips
Ayres	Hagen	Poulson
Baker	Hale	Radwan
Bates, Mass.	Hall,	Reece, Tenn.
Beall	Edwin Arthur	Reed, Ill.
Beamer	Hall,	Reed, N. Y.
Belcher	Leonard W.	Rees, Kans.
Bender	Halleck	Riehlman
Bennett, Mich.	Hand	Rogers, Mass.
Berry	Harden	Sadiak
Betts	Harrison, Wyo.	St. George
Bishop	Harvey	Schwabe
Blackney	Herter	Scott, Hardie
Boggs, Del.	Heselton	Scrivner
Bolton	Hess	Seely-Brown
Bow	Hill	Shafer
Bramblett	Hillings	Sheehan
Bray	Hinshaw	Short
Brehm	Hoeven	Simpson, Ill.
Brown, Ohio	Hoffman, Ill.	Simpson, Pa.
Budge	Hoffman, Mich.	Sittler
Burdick	Horan	Smith, Kans.
Busbey	Hull	Smith, Wis.
Bush	Hunter	Springer
Butler	Jackson, Calif.	Stefan
Canfield	James	Taber
Chenoweth	Jenison	Talle
Chilperfield	Jenkins	Taylor
Church	Jensen	Thompson,
Cole, Kans.	Jonas	Mich.
Cole, N. Y.	Judd	Towe
Corbett	Kean	Vall
Cotton	Kearney	Van Pelt
Coudert	Kearns	Van Zandt
Crawford	Keating	Vaughn
Crumpacker	Kersten, Wis.	Vursell
Cunningham	Kilburn	Weichel
Curtis, Mo.	Latham	Werdell
Curtis, Nebr.	Lovre	Wildnall
Dague	McConnell	Wigglesworth
Denny	McCulloch	Williams, N. Y.
Devereux	McDonough	Wilson, Ind.
D'Ewart	McGregor	Withrow
Dolliver	McVey	Wolcott
Dondero	Mack, Wash.	Wolverton
Eaton	Martin, Iowa	Wood, Idaho
Ellsworth	Martin, Mass.	Woodruff
Elston	Mason	

NAYS—220

Abbitt	Bennett, Fla.	Byrnes, Wis.
Abernethy	Bentsen	Camp
Addonizio	Blatnik	Cannon
Albert	Boggs, La.	Carlyle
Andrews	Bolling	Case
Anfuso	Bonner	Celler
Aspinall	Bosone	Chelf
Bailey	Boykin	Chudoff
Bakewell	Brooks	Clemente
Barden	Brown, Ga.	Colmer
Baring	Bryson	Combs
Barrett	Buckley	Cooley
Bates, Ky.	Burleson	Cooper
Battle	Burnside	Cox
Beckworth	Burton	Crosser

Davis, Ga.	Jones,	Rabaut
Davis, Tenn.	Hamilton C.	Rains
Davis, Wis.	Jones,	Ramsay
Dawson	Woodrow W.	Rankin
Deane	Karsten, Mo.	Reams
DeGraffenried	Kelly, N. Y.	Redden
Delaney	Kennedy	Regan
Denton	Keogh	Ribicoff
Dingell	Kerr	Richards
Dollinger	King	Riley
Donohue	Kirwan	Roberts
Donovan	Klein	Robeson
Dorn	Kluczynski	Rodino
Doughton	Lane	Rogers, Colo.
Doyle	Lanham	Rogers, Fla.
Eberhart	Lantaff	Rogers, Tex.
Elliott	Larcade	Rooney
Engle	Lesinski	Roosevelt
Fallon	Lind	Sabath
Felghan	Lucas	Saylor
Fernandez	Lyle	Scott,
Fine	McCarthy	Hugh D., Jr.
Fisher	McCormack	Secrest
Fogarty	McGuire	Shelley
Forand	McKinnon	Sheppard
Forrester	McMullen	Sieminski
Frazier	Machrowicz	Siemens
Fugate	Mack, Ill.	Smith, Miss.
Furcolo	Madden	Smith, Va.
Gary	Mahon	Spence
Gathings	Mansfield	Staggers
Gordon	Marshall	Stanley
Gossett	Mills	Steed
Granahan	Mitchell	Stigler
Granger	Morgan	Stockman
Grant	Morris	Sutton
Green	Morrison	Tackett
Greenwood	Morton	Teague
Gregory	Moulder	Thomas
Hardy	Multer	Thompson, Tex.
Harris	Murdock	Thornberry
Harrison, Va.	Murphy	Tollefson
Hart	Murray, Tenn.	Trimble
Havenner	Norblad	Vinson
Hays, Ohio	Norrell	Walter
Hébert	O'Brien, Ill.	Watts
Hedrick	O'Brien, Mich.	Welch
Heffernan	O'Neill	Whitten
Heller	O'Toole	Wickersham
Herlong	Passman	Wier
Hollifield	Patten	Williams, Miss.
Holmes	Perkins	Willis
Hope	Philbin	Wilson, Tex.
Howell	Poage	Winstead
Jackson, Wash.	Polk	Wood, Ga.
Jarman	Powell	Yates
Javits	Price	Yorty
Johnson	Priest	Zablocki
Jones, Ala.	Prouty	
Jones, Mo.	Quinn	

NOT VOTING—41

Adair	Gore	Patman
Allen, La.	Graham	Pickett
Breen	Hays, Ark.	Potter
Brownson	Irving	Preston
Buffett	Kelley, Pa.	Rhodes
Byrne, N. Y.	Kilday	Rivers
Carnahan	LeCompte	Sasser
Chatham	McGrath	Scudder
Clevenger	McMillan	Velde
Dempsey	Magee	Vorys
Durham	Morrow	Wharton
Evins	Miller, Calif.	Wheeler
Flood	Murray, Wis.	Whitaker
Gillette	O'Konski	

So the motion to recommit was rejected.

The Clerk announced the following pairs:

On this vote:

Mr. LeCompte for, with Mr. Carnahan against.

Mr. Clevenger for, with Mr. Byrne of New York against.

Mr. Potter for, with Mr. Evins against.

Mr. Graham for, with Mr. Kelley of Pennsylvania against.

Mr. Velde for, with Mr. Patman against.

Mr. Adair for, with Mr. Sasser against.

Mr. Buffett for, with Mr. Preston against.

Mr. Brownson for, with Mr. Flood against.

Mr. Vorys for, with Mr. Chatham against.

Mr. Wheeler for, with Mr. Hays of Arkansas against.

Mr. Gillette for, with Mr. Rivers against.

Mr. Wharton for, with Mr. Whitaker against.

Mr. Scudder for, with Mr. Durham against.
Mr. O'Konski for, with Mr. McGrath against.

Until further notice:

Mr. Magee with Mr. Merrow.

Mr. Irving with Mr. Murray of Wisconsin.

The result of the vote was announced as above recorded.

The question is on the passage of the bill.

Mr. MILLS. Mr. Speaker, on that I demand the yeas and nays.

The yeas and nays were ordered.

The question was taken; and there were—yeas 233, nays 160, not voting 39, as follows:

[Roll No. 84]

YEAS—233

Abbott	Frazier	Morrison
Abernethy	Fugate	Morton
Addonizio	Furcolo	Moulder
Albert	Garmatz	Multer
Allen, Calif.	Gary	Murdock
Andersen,	Gathings	Murphy
H. Carl	Gordon	Murray, Tenn.
Andrews	Gossett	Norblad
Anfuso	Granahan	Norrell
Aspinall	Granger	O'Brien, Ill.
Auchincloss	Grant	O'Brien, Mich.
Bailey	Green	O'Neill
Bakewell	Greenwood	Patten
Barden	Gregory	Perkins
Barrett	Hale	Philbin
Bates, Ky.	Hardy	Poage
Bates, Mass.	Harris	Polk
Battle	Harrison, Va.	Powell
Beckworth	Hart	Price
Bennett, Fla.	Harvey	Priest
Bennett, Mich.	Havenner	Prouty
Bentsen	Hébert	Quinn
Blatnik	Hedrick	Rabaut
Boggs, La.	Heffernan	Rains
Bolling	Heller	Ramsay
Bonner	Herlong	Rankin
Bosone	Hertter	Reams
Boykin	Heseltun	Redden
Brooks	Hillings	Rhodes
Brown, Ga.	Hollifield	Ribicoff
Bryson	Holmes	Richards
Buckley	Hope	Riley
Burleson	Howell	Roberts
Burnside	Hunter	Robeson
Burton	Jackson, Wash.	Rodino
Byrnes, Wis.	Jarman	Rogers, Colo.
Camp	Javits	Rogers, Fla.
Cannon	Johnson	Rogers, Tex.
Carlyle	Jones, Ala.	Rooney
Case	Jones, Mo.	Roosevelt
Celler	Jones,	Sabath
Chelf	Hamilton C.	Saylor
Chudoff	Jones,	Scott,
Clemente	Woodrow W.	Hugh D., Jr.
Cole, Kans.	Judd	Seely-Brown
Colmer	Karsten, Mo.	Shelley
Combs	Kean	Sheppard
Cooley	Keating	Sieminski
Cooper	Kelly, N. Y.	Sikes
Corbett	Kennedy	Smith, Miss.
Cotton	Keogh	Smith, Va.
Cox	Kerr	Spence
Crosser	Kilburn	Staggers
Davis, Ga.	King	Stanley
Davis, Tenn.	Kirwan	Steed
Davis, Wis.	Klein	Stigler
Dawson	Kluczynski	Stockman
Deane	Lane	Tackett
DeGraffenried	Lanham	Teague
Delaney	Lantaff	Thomas
Denton	Larcade	Thompson, Tex.
Dingell	Lesinski	Thornberry
Dollinger	Lind	Tollefson
Donohue	Lucas	Trimble
Dorn	Lyle	Vinson
Doughton	McCarthy	Walter
Doyle	McCormack	Watts
Eberhart	McGuire	Welch
Elliott	McKinnon	Whitten
Ellsworth	McMullen	Wickersham
Engle	Machrowicz	Wier
Felghan	Mack, Ill.	Williams, Miss.
Fernandez	Madden	Willis
Fine	Mahon	Wilson, Tex.
Fisher	Marshall	Winstead
Fogarty	Mills	Wood, Ga.
Forand	Mitchell	Yates
Ford	Morgan	Yorty
Forrester	Morris	Zablocki

NAYS—160

Aandahl	Fulton	O'Hara
Allen, Ill.	Gamble	Ostertag
Anderson, Calif.	Gavin	O'Toole
Andresen,	George	Passman
August H.	Golden	Patterson
Angell	Goodwin	Phillips
Arends	Gross	Poulson
Armstrong	Gwinn	Radwan
Ayres	Hagen	Reece, Tenn.
Baker	Hall,	Reed, Ill.
Baring	Edwin Arthur	Reed, N. Y.
Beall	Hall,	Rees, Kans.
Beamer	Leonard W.	Regan
Belcher	Halleck	Riehlman
Bender	Hand	Rogers, Mass.
Berry	Harden	Sadlak
Betts	Harrison, Wyo.	St. George
Bishop	Hays, Ohio	Schwabe
Blackney	Hess	Scott, Hardie
Boggs, Del.	Hill	Scrivner
Bolton	Hinshaw	Secrest
Bow	Hoeven	Shafer
Bramblett	Hoffman, Ill.	Sheehan
Bray	Hoffman, Mich.	Short
Brehm	Horan	Simpson, Ill.
Brown, Ohio	Hull	Simpson, Pa.
Budge	Jackson, Calif.	Sittler
Burdick	James	Smith, Kans.
Busbey	Jenison	Smith, Wis.
Bush	Jenkins	Springer
Butler	Jensen	Stefan
Canfield	Jonas	Sutton
Chenoweth	Kearney	Taber
Chiperfield	Kearns	Talle
Church	Kersten, Wis.	Taylor
Cole, N. Y.	Latham	Thompson,
Coudert	Lovre	Mich.
Crawford	McConnell	Towe
Crumpacker	McCulloch	Vail
Cunningham	McDonough	Van Pelt
Curtis, Mo.	McGregor	Van Zandt
Curtis, Nebr.	McVey	Vaughn
Dague	Mack, Wash.	Vursell
Dempsey	Mansfield	Weichel
Denny	Martin, Iowa	Werdel
Devereux	Martin, Mass.	Widnall
D'Ewart	Mason	Wigglesworth
Dolliver	Meador	Williams, N. Y.
Dondero	Miller, Md.	Wilson, Ind.
Donovan	Miller, Nebr.	Withrow
Eaton	Miller, N. Y.	Wolcott
Elston	Morano	Wolverton
Fallon	Mumma	Wood, Idaho
Fellows	Nelson	Woodruff
Fenton	Nicholson	

NOT VOTING—39

Adair	Gore	O'Konski
Allen, La.	Graham	Patman
Breen	Hays, Ark.	Pickett
Brownson	Irving	Potter
Buffett	Kelley, Pa.	Preston
Byrne, N. Y.	Kilday	Rivers
Carnahan	LeCompte	Sasser
Chatham	McGrath	Scudder
Clevenger	McMillan	Velde
Durham	Magee	Vorys
Evins	Morrow	Wharton
Flood	Miller, Calif.	Wheeler
Gillette	Murray, Wis.	Whitaker

So the bill was passed.

The Clerk announced the following pairs:

On this vote:

Mr. Carnahan for, with Mr. LeCompte against.

Mr. Irving for, with Mr. Clevenger against.

Mr. Evins for, with Mr. Potter against.

Mr. Kelley of Pennsylvania for, with Mr. Graham against.

Mr. Patman for, with Mr. Velde against.

Mr. Sasser for, with Mr. Vorys against.

Mr. Magee for, with Mr. Wharton against.

Mr. Preston for, with Mr. Gillette against.

Mr. Flood for, with Mr. Buffett against.

Mr. Miller of California for, with Mr. Brownson against.

Mr. Rivers for, with Mr. O'Konski against.

Mr. Hays of Arkansas for, with Mr. Adair against.

Mr. McGrath for, with Mr. Wheeler against.

Until further notice:

Mr. Durham with Mr. Merrow.

Mr. Whitaker with Mr. Murray of Wisconsin.

Mr. Chatham with Mr. Scudder.

The result of the vote was announced as above recorded.

A motion to reconsider was laid on the table.

PERMISSION TO ADDRESS THE HOUSE

Mr. MARTIN of Massachusetts. Mr. Speaker, I ask unanimous consent to address the House for 1 minute.

The SPEAKER. Is there objection to the request of the gentleman from Massachusetts?

There was no objection.

PROGRAM FOR NEXT WEEK

Mr. MARTIN of Massachusetts. Mr. Speaker, may I inquire of the majority leader as to the program for next week?

Mr. McCORMACK. Monday is District day. There are two bills scheduled: H. R. 4431, extension of the District of Columbia rent control, and S. 11, relating to assets of persons of advanced age.

Tuesday, Wednesday, Thursday, Friday, and Saturday:

On Tuesday the first order of business will be the conference report on Senate Concurrent Resolution 11, expression of American friendship, and on that there will be a roll call.

The next order of business will be H. R. 3283, the farm migrant labor bill, and thereafter H. R. 3871, Defense Production Act amendments of 1951.

I understand there will be a continuing resolution in relation to appropriations. I am unable to state what day it will come up, but I will give the House as much advance notice as possible. Any further program or change in program will be announced later. Of course, conference reports are always in order.

Mr. MARTIN of Massachusetts. I understand we are going to be obliged to meet on Saturday this coming week.

Mr. McCORMACK. I am inclined to think, as I look ahead, that that is probably what we will do.

Mr. MARTIN of Massachusetts. Does the gentleman know anything about the July Fourth program? Several Members have inquired about that.

Mr. McCORMACK. I am unable to state now. It is a little early. That will depend upon what legislation comes out of the committees next week. If any important legislation does come out, of course, it will have to be brought up. But, if we dispose of the Defense Production Act, I know of none that is in being. But, next week will govern that.

Mr. JONES of Missouri. Mr. Speaker, will the gentleman yield?

Mr. MARTIN of Massachusetts. I yield to the gentleman from Missouri.

Mr. JONES of Missouri. I would like to inquire about the program for tomorrow. According to one notice, it stated we would be in session tomorrow. We had a bill scheduled for one day this week, and I presumed it would be brought up on Saturday. I am referring to the farm migrant labor bill.

Mr. McCORMACK. That is scheduled for next Tuesday.

Mr. JONES of Missouri. It was assigned for this week, was it not?

Mr. McCORMACK. It was on the program for this week, but it comes up next Tuesday.

Mr. JONES of Missouri. Well, the program indicated that it would be brought up this week, and it was indicated there would be a session on Saturday. Now the gentleman has indicated there would be a session on Saturday of next week.

Mr. McCORMACK. Well, the fact that there is an indication does not necessarily say it will be so.

Mr. JONES of Missouri. It just indicates to me that if we are going to be in session next Saturday we should be in session tomorrow and take care of legislation that we have on the program that is ready to be acted upon.

Mr. McCORMACK. In the case of the program for next Saturday might I advise the gentleman that will be in connection with legislation which expires on June 30.

ADJOURNMENT UNTIL MONDAY

Mr. McCORMACK. Mr. Speaker, I ask unanimous consent that when the House adjourns today it adjourn to meet on Monday next.

The SPEAKER. Is there objection to the request of the gentleman from Massachusetts?

There was no objection.

GENERAL LEAVE TO EXTEND

Mr. REED of New York. Mr. Speaker, I ask unanimous consent that all Members may have five legislative days in which to extend their remarks prior to the vote on the bill (H. R. 4473) to provide revenue and for other purposes.

The SPEAKER. Is there objection to the request of the gentleman from New York?

There was no objection.

DEPARTMENT OF THE AIR FORCE

Mr. VINSON. Mr. Speaker, I ask unanimous consent to take from the Speaker's table the bill (H. R. 1726) to provide for the organization of the Air Force and the Department of the Air Force, and for other purposes, with Senate amendments thereto, disagree to the Senate amendments, and ask for a conference with the Senate.

The Clerk read the title of the bill.

The SPEAKER. Is there objection to the request of the gentleman from Georgia. [After a pause.] The Chair hears none, and appoints the following conferees: Messrs. VINSON, BROOKS, KILDAY, SHORT, and ARENDS.

OFFICER PERSONNEL

Mr. VINSON. Mr. Speaker, I ask unanimous consent to take from the Speaker's table the bill (H. R. 4200) to make certain revisions in titles I through IV of the Officer Personnel Act of 1947, as amended, and for other purposes, with Senate amendments thereto, disagree to the Senate amendments, and ask for a conference with the Senate.

The Clerk read the title of the bill.

The SPEAKER. Is there objection to the request of the gentleman from Georgia? [After a pause.] The Chair hears

none, and appoints the following conferees: Messrs. VINSON, BROOKS, KILDAY, SHORT, and ARENDS.

POWERS OF APPOINTMENT FOR ESTATE AND GIFT TAX PURPOSES

Mr. DOUGHTON. Mr. Speaker, I ask unanimous consent to take from the Speaker's table the bill (H. R. 2084) relating to the treatment of powers of appointment for estate and gift tax purposes, with Senate amendments thereto, and concur in the Senate amendments.

The Clerk read the title of the bill.

The Clerk read the Senate amendments, as follows:

Page 2, line 8, after "(c)", insert "or (d)."

Page 2, line 9, after "power", insert "or the complete release of such a power."

Page 2, line 10, strike out "July 1, 1951," and insert "November 1, 1951."

Page 3, line 3, strike out all after "(c)" down to and including "power" in line 6 and insert "or (d)."

Page 6, line 7, strike out "power." and insert "power."

Page 6, after line 7, insert:

"(5) Lapse of power: The lapse of a power of appointment created after October 21, 1942, during the life of the individual possessing the power shall be considered a release of such power. The rule of the preceding sentence shall apply with respect to the lapse of powers during any calendar year only to the extent that the property which could have been appointed by exercise of such lapsed powers exceeded in value, at the time of such lapse, the greater of the following amounts:

"(A) \$5,000, or

"(B) 5 percent of the aggregate value, at the time of such lapse, of the assets out of which, or the proceeds, of which, the exercise of the lapsed powers could have been satisfied."

Page 7, line 5, after "power", insert "or the complete release of such a power."

Page 7, line 7, strike out "July 1, 1951," and insert "November 1, 1951."

Page 7, line 17, strike out "or release."

Page 7, line 18, after "1942", insert "or the release after May 31, 1951, of such a power."

Page 7, line 20, strike out all after "power" where it occurs the first time down to and including "power" in line 23.

Page 10, line 20, strike out "power." and insert "power."

Page 10, after line 20, insert:

"(5) Lapse of power: The lapse of a power of appointment created after October 21, 1942, during the life of the individual possessing the power shall be considered a release of such power. The rule of the preceding sentence shall apply with respect to the lapse of powers during any calendar year only to the extent that the property which could have been appointed by exercise of such lapsed powers exceeds in value the greater of the following amounts:

"(A) \$5,000, or

"(B) 5 percent of the aggregate value of the assets out of which, or the proceeds of which, the exercise of the lapsed powers could be satisfied."

The SPEAKER. Is there objection to the request of the gentleman from North Carolina?

Mr. EBERHARTER. Reserving the right to object, Mr. Speaker, I wonder if the chairman of our committee can explain the Senate amendments, because this is a measure which I opposed in the form in which it passed the House. I was particularly objecting to several of

Please return to
CHIEF, LEGISLATIVE REPORTING
Office of Budget and Finance

82D CONGRESS
1ST SESSION

H. R. 4473

IN THE SENATE OF THE UNITED STATES

JUNE 25 (legislative day, JUNE 21), 1951

Read twice and referred to the Committee on Finance

AN ACT

To provide revenue, and for other purposes.

1 *Be it enacted by the Senate and House of Representa-*
2 *tives of the United States of America in Congress assembled,*
3 That (a) SHORT TITLE.—This Act, divided into titles and
4 sections according to the following table of contents, may
5 be cited as the “Revenue Act of 1951”:

TABLE OF CONTENTS

TITLE I—INCREASE IN INCOME TAX RATES

PART I—INDIVIDUAL INCOME TAXES

Sec. 101. Defense tax.

- (a) Increase in rate of tax.
- (b) Amendment of section 12 (b).
- (c) Limitation on tax.
- (d) Technical amendments.

Sec. 102. Individuals with adjusted gross income of less than \$5,000.

Sec. 103. Computation of tax in case of certain joint returns.

Sec. 104. Effective date of part I.

TABLE OF CONTENTS—Continued

TITLE I—INCREASE IN INCOME TAX RATE—Continued

PART II—CORPORATION INCOME TAXES

- Sec. 121. Increase in rate of corporation normal tax.
 - (a) Amendment of section 13.
 - (b) Maximum tax.
 - (c) Mutual insurance companies other than life or marine.
 - (d) Regulated investment companies.
 - (e) Business income of certain section 101 organizations.
 - (f) Technical amendments.
- Sec. 122. Credits of corporations.
 - (a) Dividends received credit.
 - (b) Credit for dividends paid on certain preferred stock.
 - (c) Western Hemisphere trade corporations.
- Sec. 123. Surtax exemptions and certain credits of related corporations.
 - (a) Limitation on surtax exemption in the case of related corporations.
 - (b) Insurance companies.
 - (c) Minimum excess profits credit.
- Sec. 124. Computation of alternative capital gains tax.
 - (a) Alternative tax.
 - (b) Effective date.
- Sec. 125. Effective date.

PART III—FISCAL YEAR TAXPAYERS

- Sec. 131. Fiscal year taxpayers.
 - (a) Amendment of section 108.
 - (b) Computation of excess profits tax.
 - (c) Technical amendments.

TITLE II—WITHHOLDING OF TAX AT SOURCE

PART I—WITHHOLDING OF TAX AT SOURCE ON DIVIDENDS, INTEREST, AND ROYALTIES

- Sec. 201. Collection of income tax at source on dividends, interest, and royalties.
- Sec. 202. Credit for tax withheld.
- Sec. 203. Credits in case of organizations exempt from tax.
- Sec. 204. Technical amendments.
 - (a) Tax computed by collector.
 - (b) Requirement of declaration of estimated tax.
 - (c) Credit under section 143.
 - (d) Credit under section 144.
 - (e) Information at source.
 - (f) Information by corporations.
 - (g) Clerical amendment.
 - (h) Amount of credit considered as payment.
 - (i) Special period of limitations for small refunds on tax withheld at source.
 - (j) Presumptions as to date of payment.
 - (k) Interest on overpayments.
 - (l) Definition of withholding agent.
 - (m) Effective date.

TABLE OF CONTENTS—Continued

TITLE II—WITHHOLDING OF TAX AT SOURCE—Continued

PART II—INCREASE IN WITHHOLDING OF TAX AT SOURCE ON WAGES

- Sec. 221. Percentage method of withholding.
- Sec. 222. Wage bracket withholding.
- Sec. 223. Additional withholding of tax on wages upon agreement by employer and employee.
- Sec. 224. Effective date.

TITLE III—MISCELLANEOUS INCOME TAX AMENDMENTS

- Sec. 301. Tax treatment in case of head of household.
 - (a) Surtax in case of head of household.
 - (b) Effective date.
- Sec. 302. Expenditures in the development of mines.
 - (a) Deduction of expenditures.
 - (b) Adjusted basis for determining gain or loss upon sale or exchange.
 - (c) Technical amendment.
 - (d) Effective date.
- Sec. 303. Gain from sale or exchange of taxpayer's residence.
 - (a) Nonrecognition of gain in certain cases.
 - (b) Technical amendments.
 - (c) Effective date.
- Sec. 304. Percentage depletion.
 - (a) Allowance of percentage depletion.
 - (b) Technical amendment.
 - (c) Effective date.
- Sec. 305. Capital gains and losses.
 - (a) Treatment of long-term capital gains and losses.
 - (b) Alternative tax.
 - (c) Technical amendments.
 - (d) Effective date.
- Sec. 306. Sales of livestock.
- Sec. 307. Tax treatment of coal royalties.
 - (a) Definition of property used in the trade or business.
 - (b) Gain or loss upon certain disposals of timber or coal.
 - (c) Clerical amendment.
 - (d) Effective date.
- Sec. 308. Collapsible corporations.
 - (a) Definitions with respect to collapsible corporations.
 - (b) Limitations on application of section 117 (m).
 - (c) Effective date.
- Sec. 309. Dealers in securities—capital gains and ordinary losses.
- Sec. 310. Treatment of gain on sales of certain property between spouses and between an individual and a controlled corporation.
 - (a) Disallowance of capital gain treatment.
 - (b) Effective date.
- Sec. 311. Life insurance companies.
 - (a) Reserve and other policy liability credit for 1951.
 - (b) Effective date.

TABLE OF CONTENTS—Continued

TITLE III—MISCELLANEOUS INCOME TAX AMENDMENTS—Continued

- Sec. 312. Tax treatment of certain investment companies.
- (a) Inclusion of certain registered management companies in the definition of regulated investment company.
 - (b) Technical amendment.
 - (c) Effective date.
- Sec. 313. Family partnerships.
- (a) Definition of partner.
 - (b) Allocation of partnership income.
 - (c) Effective date.

TITLE IV—EXCISE TAXES

PART I—TAX ON ADMISSIONS AND CABARETS

- Sec. 401. Removal of tax on free admissions.
- Sec. 402. Exemptions from admissions tax.
- (a) Reinstatement of prewar exemptions.
 - (b) Amendment of section 1701 (a).
 - (c) Admissions to municipal swimming pools, etc.
- Sec. 403. Effective date of amendments relating to admissions.
- Sec. 404. Tax on cabarets, roof gardens, etc.
- (a) Ballrooms and dance halls.
 - (b) Effective date.

PART II—TAX ON CIGARETTES

- Sec. 421. Tax on cigarettes.
- (a) Increase in rate.
 - (b) Effective date.
- Sec. 422. Floor stocks tax on cigarettes.

PART III—RETAILERS' EXCISE TAXES

- Sec. 431. Tax on lighters.
- Sec. 432. Retailers' excise tax on toilet preparations.
- (a) Baby oils, etc.
 - (b) Sales to barber shops, etc.
- Sec. 433. Effective date of part III.

PART IV—DIESEL FUEL

- Sec. 441. Diesel fuel used in highway vehicles.
- (a) Imposition of tax.
 - (b) Effective date.

PART V—LIQUOR

- Sec. 451. Increase in tax on distilled spirits from \$9 to \$10.50 per gallon.
- (a) Distilled spirits generally.
 - (b) Imported perfumes containing distilled spirits.
 - (c) Floor stocks tax.
- Sec. 452. Wines.
- (a) Increase in rate of tax.
 - (b) Floor stocks.

TABLE OF CONTENTS—Continued

TITLE IV—EXCISE TAXES—Continued

PART V—LIQUOR—continued

- Sec. 453. Fermented malt liquor.
 (a) Increase in tax on fermented malt liquors from \$8 to \$9 per barrel.
 (b) Floor stocks tax.
 Sec. 454. Clerical amendment.
 Sec. 455. Effective date of part V.

PART VI—OCCUPATIONAL TAXES

- Sec. 461. Dealers in liquors.
 (a) Wholesale dealers in liquors.
 (b) Retail dealers in liquors.
 (c) Wholesale dealers in malt liquors.
 Sec. 462. Drawback in the case of distilled spirits used in the manufacture of certain nonbeverage products.
 (a) Drawback.
 (b) Effective date.
 (c) Technical amendment.
 Sec. 463. Tax on coin-operated gaming devices.
 Sec. 464. Tax on bowling alleys and billiard and pool tables.
 (a) Increase in rate.
 (b) Clerical amendment.
 Sec. 465. Effective date of part VI.

PART VII—WAGERING

- Sec. 471. Wagering taxes.
 (a) Imposition of taxes.
 (b) Technical amendment.
 Sec. 472. Effective date of part VII.

PART VIII—MANUFACTURERS' EXCISE TAXES

- Sec. 481. Automobiles, trucks, and parts or accessories.
 (a) Increase in tax on trucks.
 (b) Increase in tax on passenger automobiles and motorcycles.
 (c) Increase in tax on parts or accessories.
 (d) Rebuilt parts or accessories.
 (e) Technical amendment.
 (f) Parts or accessories for farm equipment.
 (g) Effective date of subsection (f).
 (h) Removal of tax on tires for toys, etc.
 Sec. 482. Navigation receivers sold to the United States.
 (a) Exemption on sales to United States of certain radio sets.
 (b) Tax-free sales of radio parts.
 (c) Refund in case of use of parts.
 (d) Refund in case of resale to United States.
 (e) Use by manufacturer of taxable parts.
 (f) Effective dates.

TABLE OF CONTENTS—Continued

TITLE IV—EXCISE TAXES—Continued

PART VIII—MANUFACTURERS' EXCISE TAXES—continued

- Sec. 483. Repeal of tax on certain sporting goods; increase in tax on remaining sporting goods.
- Sec. 484. Addition of certain items to the tax on electric, gas, and oil appliances; removal of tax on electric heating pads.
- Sec. 485. Adjustments of tax rates on photographic apparatus and film; repeal of tax on certain items.
 - (a) Items subject to tax.
 - (b) Floor stocks refunds on bulbs.
- Sec. 486. Imposition of tax on mechanical pencils and fountain and ball point pens.
- Sec. 487. Repeal of tax on electrical energy.
 - (a) Repeal of tax.
 - (b) Effective date.
- Sec. 488. Tax on gasoline.
 - (a) Increase in rate.
 - (b) Floor stocks tax.
- Sec. 489. Effective date of part VIII.

PART IX—MISCELLANEOUS EXCISE TAX AMENDMENTS

- Sec. 491. Reduction of tax on telegraph dispatches.
 - (a) Reduction of tax.
 - (b) Clerical amendment.
 - (c) Effective date.
 - (d) Amounts paid pursuant to bills rendered.
 - (e) Rate reduction date.
- Sec. 492. Exemption of fishing trips from tax on transportation.
 - (a) Exemption.
 - (b) Effective date.
- Sec. 493. Transportation of oil by water.
 - (a) Imposition of tax.
 - (b) Technical amendment.
 - (c) Effective date.
- Sec. 494. Articles from foreign trade zones.
 - (a) Imported articles.
 - (b) Previously taxpaid articles.

TITLE V—MISCELLANEOUS PROVISIONS AND AMENDMENTS

- Sec. 501. Exemption of certain organizations from income tax for prior taxable years.
- Sec. 502. Excess profits credit based on income.
 - (a) Percentage of average base period net income taken into account.
 - (b) Effective date.
- Sec. 503. Estate and gift tax treatment of United States bonds held by certain nonresident aliens.
 - (a) Estate tax.
 - (b) Gift tax.
- Sec. 504. Reorganization Plan Numbered 26 of 1950.

1 (b) ACT AMENDATORY OF INTERNAL REVENUE
 2 CODE.—Except as otherwise expressly provided, wherever
 3 in this Act an amendment or repeal is expressed in terms of
 4 an amendment to or repeal of a chapter, subchapter, title,
 5 supplement, section, subsection, subdivision, paragraph, sub-
 6 paragraph, or clause, the reference shall be considered to be
 7 made to a provision of the Internal Revenue Code.

8 (c) MEANING OF TERMS USED.—Except as otherwise
 9 expressly provided, terms used in this Act shall have the
 10 same meaning as when used in the Internal Revenue Code.

11 **TITLE I—INCREASE IN INCOME TAX RATES**

12 **PART I—INDIVIDUAL INCOME TAXES**

13 **SEC. 101. DEFENSE TAX.**

14 (a) INCREASE IN RATE OF TAX.—Part I of subchapter
 15 B of chapter 1 is hereby amended by adding at the end
 16 thereof the following new section:

17 **“SEC. 16. DEFENSE TAX.**

18 “(a) INDIVIDUALS—CALENDAR YEAR 1951.—In the
 19 case of a taxable year beginning on January 1, 1951, and
 20 ending on December 31, 1951, the amount of the combined
 21 normal tax and surtax under sections 11 and 12, and the
 22 amount of the combined normal tax and surtax under section
 23 421 (a) (2), shall be the amount of such combined tax
 24 computed without regard to this section, increased by 4 per
 25 centum.

1 “(b) INDIVIDUALS—TAXABLE YEARS BEGINNING
2 AFTER AUGUST 31, 1951.—In the case of taxable years
3 beginning after August 31, 1951, the amount of the com-
4 bined normal tax and surtax under sections 11 and 12, and
5 the amount of the combined normal tax and surtax under
6 section 421 (a) (2), shall be the amount of such combined
7 tax computed without regard to this section, increased by
8 $12\frac{1}{2}$ per centum.

9 “(c) ALTERNATIVE CAPITAL GAINS TAX.—

10 “(1) CALENDAR YEAR 1951.—In computing an
11 alternative tax under paragraph (1) or (2) of section
12 117 (c) for a taxable year beginning on January 1,
13 1951, and ending on December 31, 1951, the amount to
14 be added to the partial tax under such paragraph shall
15 be increased by 4 per centum.

16 “(2) TAXABLE YEARS BEGINNING AFTER AUGUST
17 31, 1951.—In computing an alternative tax under para-
18 graph (1) or (2) of section 117 (c) for a taxable
19 year beginning after August 31, 1951, the amount to be
20 added to the partial tax under such paragraph shall be
21 increased by $12\frac{1}{2}$ per centum.

22 “(3) TAXABLE YEARS BEGINNING BEFORE SEP-
23 TEMBER 1, 1951, AND ENDING AFTER AUGUST 31,
24 1951.—In computing an alternative tax under paragraph
25 (1) or (2) of section 117 (c) for a taxable year (other

1 than one beginning on January 1, 1951, and ending on
2 December 31, 1951) beginning before September 1,
3 1951, and ending after August 31, 1951, the amount
4 to be added to the partial tax under such paragraph shall
5 be increased by a percentage which bears the same
6 ratio to $12\frac{1}{2}$ per centum as the number of months in
7 such taxable year after August 31, 1951, bears to the
8 total number of calendar months in such taxable year.

9 For the purposes of this paragraph, a calendar month
10 only part of which falls within a taxable year (A)
11 shall be disregarded if less than 15 days of such month
12 are included in such taxable year, and (B) shall be
13 included as a calendar month within the taxable year
14 if more than 14 days of such month fall within the tax-
15 able year.”

16 (b) AMENDMENT OF SECTION 12 (b).—Section 12
17 (b) (relating to rates of surtax) is hereby amended by
18 striking out paragraph (2) and inserting in lieu thereof
19 the following:

20 “In the case of a head of a household, the tax imposed
21 by this subsection shall not apply to any taxable year
22 beginning after August 31, 1951. In the case of an
23 individual whose surtax net income for the taxable year
24 is over \$90,000, the tax imposed by this paragraph

1 shall not apply if the defense tax provided in section 16
2 is applicable to such taxable year.

3 “(2) SURTAX NET INCOME OVER \$90,000—CAL-
4 ENDAR YEAR 1951.—In the case of a taxable year
5 beginning on January 1, 1951, and ending on December
6 31, 1951, if the surtax net income of the individual
7 is over \$90,000, there shall be levied, collected, and
8 paid for such taxable year upon the surtax net income
9 of such individual the surtax shown in the following
10 table:

If the surtax net income is:	The surtax shall be:
Over \$90,000 but not over \$100,000—	\$55,920 plus 83% of excess over \$90,000.
Over \$100,000 but not over \$150,000.	\$64,220 plus 84% of excess over \$100,000.
Over \$150,000 but not over \$200,000.	\$106,220 plus 85% of excess over \$150,000.
Over \$200,000-----	\$148,720 plus 86% of excess over \$200,000.

11 “(3) SURTAX NET INCOME OVER \$90,000—TAX-
12 ABLE YEARS BEGINNING AFTER AUGUST 31, 1951.—
13 In the case of a taxable year beginning after August 31,
14 1951, to which the defense tax provided by section 16
15 is applicable, if the surtax net income of the individual for
16 the taxable year is over \$90,000, there shall be levied,
17 collected, and paid for such taxable year upon the
18 surtax net income of such individual a surtax of \$55,920
19 plus 81 per centum of the excess over \$90,000.”

1 (c) LIMITATION ON TAX.—Section 12 (f) (relating to
2 limitation on tax) is hereby amended to read as follows:

3 “(f) LIMITATION ON TAX.—

4 “(1) TAXABLE YEARS TO WHICH DEFENSE TAX
5 DOES NOT APPLY.—In the case of a taxable year be-
6 ginning after September 30, 1950, other than a taxable
7 year to which paragraph (2) or (3) is applicable, the
8 combined normal tax and surtax shall in no event ex-
9 ceed 87 per centum of the net income for the taxable
10 year.

11 “(2) CALENDAR YEAR 1951.—In the case of a
12 taxable year beginning on January 1, 1951, and end-
13 ing December 31, 1951, the combined normal tax and
14 surtax, increased as provided in section 16, shall in no
15 event exceed 88 per centum of the net income for the
16 taxable year.

17 “(3) OTHER TAXABLE YEARS TO WHICH DEFENSE
18 TAX APPLIES.—In the case of a taxable year beginning
19 after August 31, 1951, to which the defense tax provided
20 in section 16 is applicable, the combined normal tax
21 and surtax, increased as provided in section 16, shall in
22 no event exceed 90 per centum of the net income for
23 the taxable year.”

1 (d) TECHNICAL AMENDMENTS.—

2 (1) Section 11 (a) (relating to normal tax on
3 individuals) is hereby amended by adding at the end
4 thereof the following new sentence: “For percentage
5 increase in the amount of tax for the calendar year 1951
6 and for taxable years beginning after August 31, 1951,
7 see section 16.”

8 (2) Section 12 (g) (cross references) is hereby
9 amended by adding at the end thereof the following:

10 “(7) DEFENSE TAX.—For percentage increase in
11 the amount of tax for the calendar year 1951 and for
12 taxable years beginning after August 31, 1951, see sec-
13 tion 16.

14 “(8) COMPUTATION OF TAX FOR CERTAIN FISCAL
15 YEARS.—For computation of tax in the case of taxable
16 years (other than the calendar year 1951) beginning
17 before September 1, 1951, and ending after August 31,
18 1951, see section 108 (h).”

19 SEC. 102. INDIVIDUALS WITH ADJUSTED GROSS INCOME
20 OF LESS THAN \$5,000.

21 Section 400 (relating to optional tax on individuals
22 with adjusted gross incomes of less than \$5,000) is hereby
23 amended by striking out the tables contained therein and
24 inserting in lieu thereof the following:

"Table I

"Taxable year beginning January 1, 1951, and ending
December 31, 1951

If adjusted gross income is—		And the number of exemptions is—				If adjusted gross income is—		And the number of exemptions is—									
At least	But less than	1	2	3	4 or more	At least	But less than	1	2		3		4	5	6	7	8 or more
									And if other than a joint re- turn is filed	And if a joint re- turn is filed	And if other than a joint re- turn is filed	And if a joint re- turn is filed					
		The income and defense tax shall be—						The income and defense tax shall be—									
\$0	\$675	\$0	\$0	\$0	\$0	\$2,325	\$2,350	\$313	\$188	\$188	\$63	\$63	\$0	\$0	\$0	\$0	\$0
675	700	4	0	0	0	2,350	2,375	317	193	193	68	68	0	0	0	0	0
700	725	9	0	0	0	2,375	2,400	322	197	197	73	73	0	0	0	0	0
725	750	13	0	0	0	2,400	2,425	327	202	202	77	77	0	0	0	0	0
750	775	18	0	0	0	2,425	2,450	332	207	207	82	82	0	0	0	0	0
775	800	23	0	0	0	2,450	2,475	336	211	211	87	87	0	0	0	0	0
800	825	27	0	0	0	2,475	2,500	341	216	216	91	91	0	0	0	0	0
825	850	32	0	0	0	2,500	2,525	346	221	221	96	96	0	0	0	0	0
850	875	37	0	0	0	2,525	2,550	350	225	225	101	101	0	0	0	0	0
875	900	41	0	0	0	2,550	2,575	355	230	230	105	105	0	0	0	0	0
900	925	46	0	0	0	2,575	2,600	360	235	235	110	110	0	0	0	0	0
925	950	51	0	0	0	2,600	2,625	364	239	239	115	115	0	0	0	0	0
950	975	55	0	0	0	2,625	2,650	369	244	244	119	119	0	0	0	0	0
975	1,000	60	0	0	0	2,650	2,675	374	249	249	124	124	0	0	0	0	0
1,000	1,025	65	0	0	0	2,675	2,700	378	254	254	129	129	4	0	0	0	0
1,025	1,050	69	0	0	0	2,700	2,725	383	258	258	133	133	9	0	0	0	0
1,050	1,075	74	0	0	0	2,725	2,750	388	263	263	138	138	13	0	0	0	0
1,075	1,100	79	0	0	0	2,750	2,775	392	268	268	143	143	18	0	0	0	0
1,100	1,125	83	0	0	0	2,775	2,800	397	272	272	147	147	23	0	0	0	0
1,125	1,150	88	0	0	0	2,800	2,825	402	277	277	152	152	27	0	0	0	0
1,150	1,175	93	0	0	0	2,825	2,850	406	282	282	157	157	32	0	0	0	0
1,175	1,200	98	0	0	0	2,850	2,875	411	286	286	161	161	37	0	0	0	0
1,200	1,225	102	0	0	0	2,875	2,900	416	291	291	166	166	41	0	0	0	0
1,225	1,250	107	0	0	0	2,900	2,925	421	296	296	171	171	46	0	0	0	0
1,250	1,275	112	0	0	0	2,925	2,950	426	300	300	176	176	51	0	0	0	0
1,275	1,300	116	0	0	0	2,950	2,975	431	305	305	180	180	55	0	0	0	0
1,300	1,325	121	0	0	0	2,975	3,000	436	310	310	185	185	60	0	0	0	0
1,325	1,350	126	1	0	0	3,000	3,050	444	317	317	192	192	67	0	0	0	0
1,350	1,375	130	5	0	0	3,050	3,100	454	326	326	201	201	76	0	0	0	0
1,375	1,400	135	10	0	0	3,100	3,150	465	335	335	211	211	86	0	0	0	0
1,400	1,425	140	15	0	0	3,150	3,200	475	345	345	220	220	95	0	0	0	0
1,425	1,450	144	20	0	0	3,200	3,250	485	354	354	229	229	105	0	0	0	0
1,450	1,475	149	24	0	0	3,250	3,300	496	363	363	239	239	114	0	0	0	0
1,475	1,500	154	29	0	0	3,300	3,350	506	373	373	248	248	123	0	0	0	0
1,500	1,525	158	34	0	0	3,350	3,400	516	382	382	257	257	133	8	0	0	0
1,525	1,550	163	38	0	0	3,400	3,450	526	392	392	267	267	142	17	0	0	0
1,550	1,575	168	43	0	0	3,450	3,500	537	401	401	276	276	151	27	0	0	0
1,575	1,600	172	48	0	0	3,500	3,550	547	410	410	285	285	161	36	0	0	0
1,600	1,625	177	52	0	0	3,550	3,600	557	420	420	295	295	170	45	0	0	0
1,625	1,650	182	57	0	0	3,600	3,650	568	430	429	304	304	179	55	0	0	0
1,650	1,675	186	62	0	0	3,650	3,700	578	441	438	314	314	189	64	0	0	0
1,675	1,700	191	66	0	0	3,700	3,750	588	451	448	323	323	198	73	0	0	0
1,700	1,725	196	71	0	0	3,750	3,800	598	461	457	332	332	207	83	0	0	0
1,725	1,750	200	76	0	0	3,800	3,850	609	471	466	342	342	217	92	0	0	0
1,750	1,775	205	80	0	0	3,850	3,900	619	482	476	351	351	226	101	0	0	0
1,775	1,800	210	85	0	0	3,900	3,950	629	492	485	360	360	236	111	0	0	0
1,800	1,825	215	90	0	0	3,950	4,000	640	502	495	370	370	245	120	0	0	0
1,825	1,850	219	94	0	0	4,000	4,050	650	513	504	379	379	254	129	5	0	0
1,850	1,875	224	99	0	0	4,050	4,100	660	523	513	388	388	264	139	14	0	0
1,875	1,900	229	104	0	0	4,100	4,150	671	533	523	398	398	273	148	23	0	0
1,900	1,925	233	108	0	0	4,150	4,200	681	544	532	407	407	282	158	33	0	0
1,925	1,950	238	113	0	0	4,200	4,250	691	554	541	417	417	292	167	42	0	0
1,950	1,975	243	118	0	0	4,250	4,300	701	564	551	427	426	301	176	51	0	0
1,975	2,000	247	122	0	0	4,300	4,350	712	574	560	437	435	310	186	61	0	0
2,000	2,025	252	127	2	0	4,350	4,400	722	585	569	447	445	320	195	70	0	0
2,025	2,050	257	132	7	0	4,400	4,450	732	595	579	458	454	329	204	80	0	0
2,050	2,075	261	137	12	0	4,450	4,500	743	605	588	468	463	339	214	89	0	0
2,075	2,100	266	141	16	0	4,500	4,550	753	616	597	478	473	348	223	98	0	0
2,100	2,125	271	146	21	0	4,550	4,600	763	626	607	489	482	357	232	108	0	0
2,125	2,150	275	151	26	0	4,600	4,650	774	636	616	499	491	367	242	117	0	0
2,150	2,175	280	155	30	0	4,650	4,700	784	647	626	509	501	376	251	126	2	0
2,175	2,200	285	160	35	0	4,700	4,750	794	657	635	520	510	385	261	136	11	0
2,200	2,225	289	165	40	0	4,750	4,800	804	667	644	530	519	395	270	145	20	0
2,225	2,250	294	169	44	0	4,800	4,850	815	677	654	540	529	404	279	154	30	0
2,250	2,275	299	174	49	0	4,850	4,900	825	688	663	550	538	413	289	164	39	0
2,275	2,300	303	179	54	0	4,900	4,950	835	698	672	561	548	423	298	173	48	0
2,300	2,325	308	183	59	0	4,950	5,000	846	708	682	571	557	432	307	183	58	0

“Table II

“Taxable years beginning after August 31, 1951

If adjusted gross income is—		And the number of exemptions is—				If adjusted gross income is—		And the number of exemptions is—													
								1		2		3		4	5	6	7	8 or more			
At least	But less than	1	2	3	4 or more	At least	But less than	And tax-payer is single or married filing separately	And tax-payer is head of household	And tax-payer is single or married filing separately	And tax-payer is head of household	And a joint return is filed	And tax-payer is single or married filing separately						And tax-payer is head of household	And a joint return is filed	4
The income and defense tax shall be—																					
\$0	\$675	\$0	\$0	\$0	\$0	\$2,325	\$2,350	\$338	\$338	\$203	\$203	\$203	\$68	\$68	\$68	\$0	\$0	\$0	\$0	\$0	\$0
675	700	4	0	0	0	2,350	2,375	343	343	208	208	208	73	73	73	0	0	0	0	0	0
700	725	9	0	0	0	2,375	2,400	348	348	213	213	213	78	78	78	0	0	0	0	0	0
725	750	14	0	0	0	2,400	2,425	354	354	219	219	219	84	84	84	0	0	0	0	0	0
750	775	19	0	0	0	2,425	2,450	359	359	224	224	224	89	89	89	0	0	0	0	0	0
775	800	24	0	0	0	2,450	2,475	364	364	229	229	229	94	94	94	0	0	0	0	0	0
800	825	30	0	0	0	2,475	2,500	369	369	234	234	234	99	99	99	0	0	0	0	0	0
825	850	35	0	0	0	2,500	2,525	374	374	239	239	239	104	104	104	0	0	0	0	0	0
850	875	40	0	0	0	2,525	2,550	379	379	244	244	244	109	109	109	0	0	0	0	0	0
875	900	45	0	0	0	2,550	2,575	384	384	249	249	249	114	114	114	0	0	0	0	0	0
900	925	50	0	0	0	2,575	2,600	389	389	254	254	254	119	119	119	0	0	0	0	0	0
925	950	55	0	0	0	2,600	2,625	394	394	259	259	259	124	124	124	0	0	0	0	0	0
950	975	60	0	0	0	2,625	2,650	399	399	264	264	264	129	129	129	0	0	0	0	0	0
975	1,000	65	0	0	0	2,650	2,675	404	404	269	269	269	134	134	134	0	0	0	0	0	0
1,000	1,025	70	0	0	0	2,675	2,700	409	409	274	274	274	139	139	139	4	0	0	0	0	0
1,025	1,050	75	0	0	0	2,700	2,725	414	414	279	279	279	144	144	144	9	0	0	0	0	0
1,050	1,075	80	0	0	0	2,725	2,750	419	419	284	284	284	149	149	149	14	0	0	0	0	0
1,075	1,100	85	0	0	0	2,750	2,775	424	424	289	289	289	154	154	154	19	0	0	0	0	0
1,100	1,125	90	0	0	0	2,775	2,800	429	429	294	294	294	159	159	159	24	0	0	0	0	0
1,125	1,150	95	0	0	0	2,800	2,825	435	435	300	300	300	165	165	165	30	0	0	0	0	0
1,150	1,175	100	0	0	0	2,825	2,850	440	440	305	305	305	170	170	170	35	0	0	0	0	0
1,175	1,200	105	0	0	0	2,850	2,875	445	445	310	310	310	175	175	175	40	0	0	0	0	0
1,200	1,225	111	0	0	0	2,875	2,900	450	450	315	315	315	180	180	180	45	0	0	0	0	0
1,225	1,250	116	0	0	0	2,900	2,925	455	455	320	320	320	185	185	185	50	0	0	0	0	0
1,250	1,275	121	0	0	0	2,925	2,950	461	460	325	325	325	190	190	190	55	0	0	0	0	0
1,275	1,300	126	0	0	0	2,950	2,975	466	466	330	330	330	195	195	195	60	0	0	0	0	0
1,300	1,325	131	0	0	0	2,975	3,000	472	471	335	335	335	200	200	200	65	0	0	0	0	0
1,325	1,350	136	1	0	0	3,000	3,050	480	479	343	343	343	208	208	208	73	0	0	0	0	0
1,350	1,375	141	6	0	0	3,050	3,100	491	490	353	353	353	218	218	218	83	0	0	0	0	0
1,375	1,400	146	11	0	0	3,100	3,150	503	500	363	363	363	228	228	228	93	0	0	0	0	0
1,400	1,425	151	16	0	0	3,150	3,200	514	511	373	373	373	238	238	238	103	0	0	0	0	0
1,425	1,450	156	21	0	0	3,200	3,250	525	521	383	383	383	248	248	248	113	0	0	0	0	0
1,450	1,475	161	26	0	0	3,250	3,300	536	532	393	393	393	258	258	258	123	0	0	0	0	0
1,475	1,500	166	31	0	0	3,300	3,350	547	543	403	403	403	268	268	268	133	0	0	0	0	0
1,500	1,525	171	36	0	0	3,350	3,400	558	553	413	413	413	278	278	278	143	8	0	0	0	0
1,525	1,550	176	41	0	0	3,400	3,450	569	564	424	424	424	289	289	289	154	19	0	0	0	0
1,550	1,575	181	46	0	0	3,450	3,500	581	575	434	434	434	299	299	299	164	29	0	0	0	0
1,575	1,600	186	51	0	0	3,500	3,550	592	585	444	444	444	309	309	309	174	39	0	0	0	0
1,600	1,625	192	57	0	0	3,550	3,600	603	596	454	454	454	319	319	319	184	49	0	0	0	0
1,625	1,650	197	62	0	0	3,600	3,650	614	607	465	465	464	329	329	329	194	59	0	0	0	0
1,650	1,675	202	67	0	0	3,650	3,700	625	617	477	477	474	339	339	339	204	69	0	0	0	0
1,675	1,700	207	72	0	0	3,700	3,750	636	628	488	486	484	349	349	349	214	79	0	0	0	0
1,700	1,725	212	77	0	0	3,750	3,800	647	638	499	497	494	359	359	359	224	89	0	0	0	0
1,725	1,750	217	82	0	0	3,800	3,850	659	649	510	507	505	370	370	370	235	100	0	0	0	0
1,750	1,775	222	87	0	0	3,850	3,900	670	660	521	518	515	380	380	380	245	110	0	0	0	0
1,775	1,800	227	92	0	0	3,900	3,950	681	670	532	529	525	390	390	390	255	120	0	0	0	0
1,800	1,825	232	97	0	0	3,950	4,000	692	681	543	539	535	400	400	400	265	130	0	0	0	0
1,825	1,850	237	102	0	0	4,000	4,050	703	692	555	550	545	410	410	410	275	140	5	0	0	0
1,850	1,875	242	107	0	0	4,050	4,100	714	702	566	560	555	420	420	420	285	150	15	0	0	0
1,875	1,900	247	112	0	0	4,100	4,150	725	713	577	571	565	430	430	430	295	160	25	0	0	0
1,900	1,925	252	117	0	0	4,150	4,200	736	723	588	582	575	440	440	440	305	170	35	0	0	0
1,925	1,950	257	122	0	0	4,200	4,250	748	734	599	592	586	451	451	451	316	181	46	0	0	0
1,950	1,975	262	127	0	0	4,250	4,300	759	745	610	603	596	462	461	461	326	191	56	0	0	0
1,975	2,000	267	132	0	0	4,300	4,350	770	755	621	614	606	473	472	471	336	201	66	0	0	0
2,000	2,025	273	138	3	0	4,350	4,400	781	766	633	624	616	484	482	481	346	211	76	0	0	0
2,025	2,050	278	143	8	0	4,400	4,450	792	777	644	635	626	495	493	491	356	221	86	0	0	0
2,050	2,075	283	148	13	0	4,450	4,500	803	787	655	645	636	506	504	501	366	231	96	0	0	0
2,075	2,100	288	153	18	0	4,500	4,550	814	798	666	656	646	517	514	511	376	241	106	0	0	0
2,100	2,125	293	158	23	0	4,550	4,600	826	809	677	667	656	529	525	521	386	251	116	0	0	0
2,125	2,150	298	163	28	0	4,600	4,650	837	819	688	677	667	540	536	532	397	262	127	0	0	0
2,150	2,175	303	168	33	0	4,650	4,700	848	830	699	688	677	551	545							

1 **SEC. 103. COMPUTATION OF TAX IN CASE OF CERTAIN**
2 **JOINT RETURNS.**

3 If a joint return of a husband and wife is filed under
4 the provisions of section 51 (b) (3) of the Internal Revenue
5 Code in a case where the husband and wife have different
6 taxable years because of the death of either spouse, and the
7 taxable year of the surviving spouse covered by such joint
8 return began before September 1, 1951, and ended after
9 August 31, 1951, the amendments made by this part shall
10 be applicable in respect of such joint return as if the tax-
11 able years of both spouses covered by the joint return
12 ended on the date of the closing of the surviving spouse's
13 taxable year.

14 **SEC. 104. EFFECTIVE DATE OF PART I.**

15 Except as provided in section 103, the amendments
16 made by this part shall be applicable only with respect to
17 taxable years ending after August 31, 1951. For treat-
18 ment of taxable years (other than the calendar year 1951)
19 beginning before September 1, 1951, and ending after
20 August 31, 1951, see section 131.

1 **PART II—CORPORATION INCOME TAXES**

2 **SEC. 121. INCREASE IN RATE OF CORPORATION NORMAL**
3 **TAX.**

4 (a) **AMENDMENT OF SECTION 13.**—Subsections (a)
5 and (b) of section 13 (relating to normal tax on corpora-
6 tions) are hereby amended to read as follows:

7 “(a) **DEFINITIONS.**—For the purposes of this chapter—

8 “(1) **ADJUSTED NET INCOME.**—The term ‘adjusted
9 net income’ means the net income minus the credit pro-
10 vided in section 26 (a), relating to interest on certain
11 obligations of the United States and Government
12 corporations.

13 “(2) **NORMAL-TAX NET INCOME.**—The term ‘nor-
14 mal-tax net income’ means the adjusted net income
15 minus the sum of the following credits:

16 “(A) The credit for dividends received pro-
17 vided in section 26 (b) ;

18 “(B) In the case of a public utility, the credit
19 for dividends paid on its preferred stock provided
20 in section 26 (h) ; and

21 “(C) In the case of a western hemisphere
22 trade corporation (as defined in section 109), the
23 credit provided in section 26 (i) .

24 “(b) **IMPOSITION OF TAX.**—There shall be levied,
25 collected, and paid for each taxable year upon the normal-

1 tax net income of every corporation (except a corporation
2 subject to a tax imposed by section 231 (a), supplement
3 G, or supplement Q) a tax of 30 per centum of the normal
4 tax net income.”

5 (b) MAXIMUM TAX.—Section 430 (a) (2) (relat-
6 ing to the limitation on the rate of the excess profits tax) is
7 hereby amended by striking out “62 per centum” and insert-
8 ing in lieu thereof “70 per centum”.

9 (c) MUTUAL INSURANCE COMPANIES OTHER THAN
10 LIFE OR MARINE.—

11 (1) Section 207 (a) (1) (relating to normal tax
12 and surtax on mutual insurance companies, other than
13 life or marine) is hereby amended by striking out sub-
14 paragraphs (A) and (B) and inserting in lieu thereof
15 the following:

16 “(A) Normal Tax.—A normal tax of 30 per
17 centum of the normal-tax net income, or 60 per
18 centum of the amount by which the normal-tax
19 net income exceeds \$3,000, whichever is the lesser,
20 plus

21 “(B) Surtax.—A surtax of 22 per centum
22 of the corporation surtax net income in excess of
23 \$25,000.”

24 (2) Section 207 (a) (3) (relating to a normal

1 tax and surtax on interinsurers and reciprocal under-
 2 writers) is hereby amended by striking out subpara-
 3 graphs (A) and (B) and inserting in lieu thereof the
 4 following:

5 “(A) Normal Tax.—A normal tax of 30 per
 6 centum of the normal-tax net income, or 60 per
 7 centum of the amount by which the normal-tax
 8 net income exceeds \$50,000, whichever is the
 9 lesser; plus

10 “(B) Surtax.—A surtax of 22 per centum of
 11 the corporation surtax net income in excess of
 12 \$25,000, or 33 per centum of the amount by which
 13 the corporation surtax net income exceeds \$50,000,
 14 whichever is the lesser.”

15 (d) REGULATED INVESTMENT COMPANIES.—Section
 16 362 (b) (relating to tax on regulated investment com-
 17 panies) is hereby amended by striking out paragraphs (3)
 18 and (4) and inserting in lieu thereof the following:

19 “(3) There shall be levied, collected, and paid for
 20 each taxable year upon its supplement Q net income a
 21 tax equal to 30 per centum of the amount thereof.

22 “(4) There shall be levied, collected, and paid for
 23 each taxable year upon its supplement Q surtax net
 24 income a tax equal to 22 per centum of the amount
 25 thereof in excess of \$25,000.”

1 (e) BUSINESS INCOME OF CERTAIN SECTION 101
 2 ORGANIZATIONS.—Section 421 (a) (1) (relating to im-
 3 position of tax on business income of certain section 101
 4 organizations) is hereby amended by striking out “25 per
 5 centum” and inserting in lieu thereof “30 per centum”.

6 (f) TECHNICAL AMENDMENTS.—

7 (1) REPEAL OF SECTION 14.—Section 14 (relat-
 8 ing to normal tax on special classes of corporations in the
 9 case of taxable years beginning before July 1, 1950)
 10 is hereby repealed.

11 (2) AMENDMENT OF SECTION 15.—Section 15
 12 (relating to surtax on corporations) is hereby amended
 13 to read as follows:

14 **“SEC. 15. SURTAX ON CORPORATIONS.**

15 **“(a) CORPORATION SURTAX NET INCOME.**—For the
 16 purposes of this chapter, the term ‘corporation surtax net
 17 income’ means the net income minus the sum of the follow-
 18 ing credits:

19 “(1) The credit for dividends received provided in
 20 section 26 (b) ;

21 “(2) In the case of a public utility, the credit for
 22 dividends paid on its preferred stock provided in section
 23 26 (h) ;

24 “(3) In the case of a western hemisphere trade

1 corporation (as defined in section 109), the credit pro-
2 vided in section 26 (i).

3 “(b) IMPOSITION OF TAX.—There shall be levied, col-
4 lected, and paid for each taxable year upon the corporation
5 surtax net income of every corporation (except a corporation
6 subject to a tax imposed by section 231 (a), supplement G,
7 or supplement Q) a surtax of 22 per centum of the amount
8 of the corporation surtax net income in excess of the surtax
9 exemption provided in section 26 (j).”

10 SEC. 122. CREDITS OF CORPORATIONS.

11 (a) DIVIDENDS RECEIVED CREDIT.—Paragraphs (1)
12 and (2) of section 26 (b) (relating to credit for dividends
13 received) are hereby amended to read as follows:

14 “(1) IN GENERAL.—85 per centum of the amount
15 received as dividends (other than dividends described
16 in paragraph (2) on the preferred stock of a public
17 utility) from a domestic corporation which is subject to
18 taxation under this chapter; and

19 “(2) CERTAIN PREFERRED STOCK.—62 per centum
20 of the amount received as dividends on the preferred
21 stock of a public utility which is subject to taxation under
22 this chapter.”

23 (b) CREDIT FOR DIVIDENDS PAID ON CERTAIN PRE-
24 FERRED STOCK.—The first sentence of section 26 (h) (1)
25 (relating to amount of credit for dividends paid on certain

1 preferred stock) is hereby amended to read as follows: "In
 2 the case of a public utility, an amount equal to 27 per
 3 centum of the lesser of (A) the amount of dividends paid
 4 during the taxable year on its preferred stock or (B) the
 5 adjusted net income for such taxable year minus the credit
 6 for dividends received provided in subsection (b) for such
 7 year."

8 (c) WESTERN HEMISPHERE TRADE CORPORATIONS.—

9 Section 26 (i) (relating to credit of a western hemisphere
 10 trade corporation) is hereby amended to read as follows:

11 "(i) WESTERN HEMISPHERE TRADE CORPORATIONS.—

12 In the case of a western hemisphere trade corporation (as
 13 defined in section 109), an amount equal to 27 per centum
 14 of its normal-tax net income computed without regard to the
 15 credit provided in this subsection."

16 **SEC. 123. SURTAX EXEMPTIONS AND CERTAIN CREDITS**
 17 **OF RELATED CORPORATIONS.**

18 (a) LIMITATION ON SURTAX EXEMPTION IN THE
 19 CASE OF RELATED CORPORATIONS.—Section 26 (relating
 20 to credits of corporations) is hereby amended by adding at
 21 the end thereof the following new subsection:

22 "(j) SURTAX EXEMPTION.—

23 "(1) IN GENERAL.—Except in the case of a cor-
 24 poration to which paragraph (2) is applicable for the
 25 taxable year, a surtax exemption of \$25,000.

1 “(2) RELATED CORPORATIONS.—In the case of a
2 corporation which on December 31 of any year is a
3 member of a controlled group as defined in paragraph
4 (3), a surtax exemption, for the taxable year which
5 includes such date, in an amount equal to \$25,000
6 divided by the number of corporations in such group at
7 the close of such date. In lieu of such exemption, a
8 surtax exemption of \$25,000 for the controlled group
9 may be divided (in any manner) by the corporations
10 which at the close of such date are members of such
11 group by making and filing with the Secretary a consent
12 setting forth the portion of the \$25,000 which will
13 be taken by each member as its surtax exemption for
14 its taxable year which includes such date. The consent
15 shall be made and filed at such time and in such manner
16 as the Secretary by regulations may prescribe. If a
17 member of a controlled group has a taxable year which
18 does not include December 31, the surtax exemption for
19 such member for such taxable year shall be an amount
20 equal to \$25,000 divided by the number of corporations
21 in such group at the close of such taxable year.

22 “(3) DEFINITION OF CONTROLLED GROUP.—For
23 the purposes of paragraph (2), a ‘controlled group’
24 means:

25 “(A) Any group of one or more chains of

corporations connected through ownership with a common parent corporation if—

“(i) stock possessing at least 95 per centum of the voting power of all classes of stock of each of the corporations (except the common parent corporation) is owned directly by one or more of the other corporations; and

“(ii) the common parent corporation owns directly stock possessing at least 95 per centum of the voting power of all classes of stock of at least one of the other corporations, excluding, in computing such voting power, stock held by such other corporations.

“(B) Any group of two or more corporations if at least 95 per centum of the voting power of all classes of stock of each of the corporations is owned, directly or indirectly, by or for one individual, or is owned, directly or indirectly, by or for not more than five individuals each of whom owns substantially the same proportion of the voting power in any one of such corporations as he owns in each of the other corporations. For the purposes of this subparagraph—

“(i) an individual shall be considered as owning substantially the same proportion of the

1 voting power in any two corporations if, and
 2 only if, he could own the same proportion of the
 3 voting power in each by increasing by not more
 4 than 10 per centum his voting power in one of
 5 the corporations and decreasing by not more
 6 than 10 per centum his voting power in the
 7 other corporation;

8 “(ii) stock owned, directly or indirectly,
 9 by or for a corporation, partnership, estate,
 10 or trust, shall be considered as being owned
 11 proportionately by or for its shareholders, part-
 12 ners, or beneficiaries;

13 “(iii) an individual shall be considered as
 14 owning the stock owned, directly or indirectly,
 15 by or for his spouse;

16 “(iv) if an individual owns more than 50
 17 per centum of the voting power in any corpora-
 18 tion (including the voting power of the stock
 19 owned by him upon the application of clauses
 20 (ii) and (iii)), such individual shall be con-
 21 sidered as owning the stock owned in such cor-
 22 poration, directly or indirectly, by or for his
 23 ancestors and lineal descendants;

24 “(v) stock constructively owned by a per-
 25 son by reason of the application of clause (ii)

1 shall, for the purpose of applying clause (ii),
2 (iii), or (iv), be treated as actually owned by
3 such person, but stock constructively owned by
4 an individual by reason of the application of
5 clause (iii) or (iv) shall not be treated as
6 owned by him for the purpose of applying
7 either such clause in order to make another the
8 constructive owner of such stock; and

9 “(vi) if stock may be treated as construc-
10 tively owned by two or more individuals, such
11 stock shall, in any computation to determine
12 the proportionate voting power of such individ-
13 uals, be treated in such computation as construc-
14 tively owned by the individual whose construc-
15 tive ownership of such stock results in the
16 corporation being a member of a controlled
17 group.

18 If a group of corporations described in subparagraph
19 (B) includes a common parent corporation included in
20 a group described in subparagraph (A), then each
21 member of the group described in subparagraph (A) of
22 which the common parent corporation is a member shall
23 be a member of the group described in subparagraph
24 (B). For the purposes of this paragraph, treasury
25 stock shall not be considered to be voting stock.”

1 (b) **INSURANCE COMPANIES.**—Section 201 (g) (re-
2 lating to credits under section 26 allowed life insurance com-
3 panies) and section 204 (f) (relating to credits under sec-
4 tion 26 allowed to insurance companies other than life or
5 mutual) are each amended by adding at the end thereof
6 the following new sentence: “In computing the surtax im-
7 posed by this section, in the manner provided in section
8 15 (b), the surtax exemption provided in section 26 (j)
9 shall be allowed.”

10 (c) **MINIMUM EXCESS PROFITS CREDIT.**—The last
11 sentence of section 431 (relating to definition of adjusted
12 excess profits net income) is hereby amended to read as
13 follows: “If such sum is less than its surtax exemption
14 provided in section 26 (j) for the taxable year, such sum
15 shall be increased to the amount of its surtax exemption
16 for such year.”

17 **SEC. 124. COMPUTATION OF ALTERNATIVE CAPITAL GAINS**
18 **TAX.**

19 (a) **ALTERNATIVE TAX.**—Section 117 (c) (1) (relat-
20 ing to alternative tax on corporations) is hereby amended
21 by striking out the second paragraph and inserting in lieu
22 thereof the following:

1 “(A) A partial tax shall first be computed
2 upon the net income reduced by the amount of
3 such excess, at the rates and in the manner as if
4 this subsection had not been enacted.

5 “(B) There shall then be ascertained an
6 amount equal to 25 per centum of such excess.
7 In the case of taxable years to which the defense
8 tax provided in section 16 (c) is applicable, such
9 amount shall be increased by the percentage speci-
10 fied in such section.

11 “(C) The total tax shall be the partial tax
12 computed under subparagraph (A) plus the amount
13 computed under subparagraph (B).”

14 (b) **EFFECTIVE DATE.**—The amendment made by sub-
15 section (a) shall be applicable only with respect to taxable
16 years ending after August 31, 1951.

17 **SEC. 125. EFFECTIVE DATE.**

18 Except as provided in section 124, the amendments
19 made by this part shall be applicable only with respect to
20 taxable years beginning after December 31, 1950. For
21 treatment of taxable years beginning in 1950 and ending
22 in 1951, see part III of this title.

1 **PART III—FISCAL YEAR TAXPAYERS**

2 **SEC. 131. FISCAL YEAR TAXPAYERS.**

3 (a) **AMENDMENT OF SECTION 108.**—Section 108 is
4 hereby amended by striking out paragraph (2) of sub-
5 section (f) and inserting in lieu thereof the following:

6 “(2) that portion of a tentative tax consisting of—

7 “(A) a tentative normal tax of 25 per centum
8 of the normal-tax net income, plus

9 “(B) a tentative surtax of 20 per centum of
10 the surtax net income in excess of \$25,000,

11 which the number of days in such taxable year after
12 June 30, 1950, and before January 1, 1951, bears to the
13 total number of days in such taxable year, plus (if the
14 taxable year ends in 1951)

15 “(3) that portion of a tentative tax consisting of—

16 “(A) a tentative normal tax of 30 per centum
17 of the normal-tax net income, plus

18 “(B) a tentative surtax of 20 per centum of
19 the surtax net income in excess of \$25,000,

20 which the number of days in such taxable year after
21 December 31, 1950, bears to the total number of days
22 in such taxable year.

23 In computing for the purposes of paragraph (2) the normal-
24 tax net income and the corporation surtax net income, the
25 credits provided in section 26 applicable to taxable years

beginning on July 1, 1950, shall be allowed in the manner and to the extent provided in sections 13 and 15 applicable to years beginning on such date, except that such credits shall be applied without regard to the amendments made to section 26 by title II of the Excess Profits Tax Act of 1950. In computing for the purposes of paragraph (3) the normal-tax net income and the corporation surtax net income, the credits provided in section 26 applicable to taxable years beginning on January 1, 1951, shall be allowed in the manner and to the extent provided in sections 13 and 15 applicable to years beginning on such date.

“(g) TAXABLE YEARS OF CORPORATIONS BEGINNING AFTER JUNE 30, 1950, AND BEFORE 1951, AND ENDING IN 1951.—In the case of a taxable year of a corporation beginning after June 30, 1950, and before January 1, 1951, and ending after December 31, 1950, the tax imposed by sections 13 and 15 shall be an amount equal to the sum of—

“(1) that portion of a tentative tax, computed under the provisions of sections 13 and 15 applicable to such taxable year, which the number of days in such taxable year prior to January 1, 1951, bears to the total number of days in such taxable year, plus

“(2) that portion of a tentative tax, computed under the provisions of sections 13 and 15 applicable to years beginning on January 1, 1951, as if such pro-

visions were applicable to such taxable year, which the number of days in such taxable year after December 31, 1950, bears to the total number of days in such taxable year. For the purposes of this paragraph a surtax exemption of \$25,000 shall be allowed in lieu of the exemption provided in section 26 (j).

“(h) CERTAIN TAXABLE YEARS OF INDIVIDUALS BEGINNING BEFORE SEPTEMBER 1, 1951, AND ENDING AFTER AUGUST 31, 1951.—In the case of a taxable year (other than one beginning on January 1, 1951, and ending on December 31, 1951) of a taxpayer, other than a corporation, beginning before September 1, 1951, and ending after August 31, 1951, the tax imposed by sections 11 and 12, section 400, or section 421 (a) (2), shall be an amount equal to the sum of—

“(1) that portion of a tentative tax, computed under the provisions of sections 11 and 12, or section 400, applicable to taxable years beginning on October 1, 1950, which the number of calendar months in such taxable year prior to September 1, 1951, bears to the total number of calendar months in such taxable year, plus

“(2) that portion of a tentative tax, computed under the provisions of sections 11 and 12, or section 400, applicable to years beginning on September 1,

1 1951, as if such provisions (other than the provisions
2 relating to head of household) were applicable to such
3 taxable year, which the number of calendar months
4 in such taxable year after August 31, 1951, bears to
5 the total number of calendar months in such taxable
6 year.

7 For the purposes of this subsection, a calendar month only
8 part of which falls within the taxable year (A) shall be
9 disregarded if less than 15 days of such month are included
10 in such taxable year, and (B) shall be included as a calendar
11 month within the taxable year if more than 14 days of such
12 month fall within the taxable year. This subsection shall
13 not apply in the case of a trust described in section 421
14 (b) (2) if the taxable year of such trust began before
15 January 1, 1951.”

16 (b) COMPUTATION OF EXCESS PROFITS TAX.—Sub-
17 section (b) of section 430 (relating to computation of ex-
18 cess profits tax in the case of certain taxable years) is hereby
19 amended to read as follows:

20 “(b) CERTAIN TAXABLE YEARS BEGINNING BEFORE
21 1951.—

22 “(1) TAXABLE YEARS ENDING BEFORE JANUARY
23 1, 1951.—In the case of a taxable year beginning be-
24 fore July 1, 1950, and ending after June 30, 1950, and
25 before January 1, 1951, the tax imposed by subsection

(a) shall be an amount equal to that portion of a tentative tax, computed under the provisions of subsection (a) applicable to taxable years ending on December 31, 1950, which the number of days in such taxable year after June 30, 1950, bears to the total number of days in such taxable year.

“(2) TAXABLE YEARS ENDING AFTER DECEMBER 31, 1950.—In the case of a taxable year beginning before January 1, 1951, and ending after December 31, 1950, the tax imposed by subsection (a) shall be an amount equal to the sum of—

“(A) that portion of a tentative tax, computed under the provisions of subsection (a) applicable to taxable years ending on December 31, 1950, which the number of days in such taxable year after June 30, 1950, and before January 1, 1951, bears to the total number of days in such taxable year, plus

“(B) that portion of a tentative tax, computed under the provisions of subsection (a) applicable to taxable years beginning on January 1, 1951, which the number of days in such taxable year after December 31, 1950, bears to the total number of days in such taxable year.”

(c) TECHNICAL AMENDMENTS.—

(1) Section 108 (e) (2) is hereby amended by inserting after “section 400,” the following: “applicable to years beginning on October 1, 1950,”.

(2) Section 108 (g) is hereby amended by striking out “(g)” and inserting in lieu thereof “(i)”.

TITLE II—WITHHOLDING OF TAX AT SOURCE

PART I—WITHHOLDING OF TAX AT SOURCE ON

DIVIDENDS, INTEREST, AND ROYALTIES

SEC. 201. COLLECTION OF INCOME TAX AT SOURCE ON

DIVIDENDS, INTEREST, AND ROYALTIES.

Subtitle B of the Internal Revenue Code is hereby amended by inserting before chapter 7 the following new chapter:

“CHAPTER 6—COLLECTION OF INCOME TAX AT SOURCE ON DIVIDENDS, INTEREST, AND ROYALTIES

“Subchapter A—Dividends and Interest

“SEC. 1200. DEFINITIONS.

“As used in this chapter—

“(a) DIVIDEND.—The term ‘dividend’ means—

“(1) any distribution by a corporation which is a dividend as defined in section 115 (a) ; and

1 “(2) a payment made by a stockbroker to any per-
2 son as a substitute for a dividend (as defined in section
3 115 (a)) upon which a tax is required to be deducted
4 and withheld under this subchapter.

5 “(b) INTEREST.—The term ‘interest’ means—

6 “(1) interest on all bonds, debentures, notes, cer-
7 tificates, or other evidences of indebtedness, issued by
8 any corporation, with interest coupons or in registered
9 form;

10 “(2) interest on deposits with stockbrokers;

11 “(3) interest on amounts held by an insurance
12 company under an agreement to pay interest thereon;
13 and

14 “(4) interest on the overpayment of any internal
15 revenue tax, except income or excess profits taxes im-
16 posed upon corporations.

17 **“SEC. 1201. INCOME TAX COLLECTED AT SOURCE.**

18 “(a) REQUIREMENT OF WITHHOLDING.—Every per-
19 son making payment after December 31, 1951, of a dividend
20 or interest shall deduct and withhold upon such dividend or
21 interest a tax equal to 20 per centum of the amount thereof.
22 If the withholding agent is unable to determine the person
23 to whom the dividend or interest is payable, such tax shall
24 be deducted and withheld at the time payment thereof would

1 be made if such person were known. For certain exemptions
2 from withholding, see section 1202.

3 “(b) WITHHOLDING WHERE AMOUNT OF DIVIDEND
4 IS UNKNOWN.—If the withholding agent is unable to deter-
5 mine the portion of a distribution which is a dividend, the
6 tax required to be deducted and withheld under this sub-
7 chapter shall be computed on the entire amount of the
8 distribution.

9 “(c) INDEMNIFICATION OF WITHHOLDING AGENT.—
10 A withholding agent shall not be liable, except as provided
11 in section 1203, to any person for the amount of any tax
12 required to be deducted and withheld under this subchapter.

13 “(d) CREDIT FOR TAX WITHHELD.—For credit, against
14 the income tax of the recipient of the income, of amounts
15 required to be deducted and withheld under this subchapter,
16 see section 35.

17 **“SEC. 1202. EXEMPTIONS FROM WITHHOLDING.**

18 “The provisions of this chapter shall not apply to:

19 “(a) A dividend paid in the stock or rights to acquire
20 the stock of the distributing corporation, whether or not the
21 recipient of such stock or rights had an option to be paid
22 in money, or other property, in lieu of such stock or rights.

23 “(b) Distributions (other than capital gain dividends
24 described in section 362 (b) (7)) to shareholders which

1 are treated under chapter 1 as amounts received upon the
2 sale or exchange of property, or distributions with respect
3 to which gain or loss is not recognized under chapter 1 to
4 the shareholders.

5 “(c) Any amount which is includible in gross in-
6 come as a taxable dividend under the provisions of section
7 112 (c) (2) (relating to certain distributions made in pur-
8 suance of a plan of reorganization), section 115 (g) (relat-
9 ing to redemptions of stock), or section 371 (e) (2) (re-
10 lating to certain distributions pursuant to the order of the
11 Securities and Exchange Commission).

12 “(d) A dividend paid by a Federal reserve bank, Fed-
13 eral land bank, Federal home loan bank, Central Bank for
14 Cooperatives, or Bank for Cooperatives.

15 “(e) Any interest which, irrespective of the person to
16 whom payable, is wholly exempt from the tax imposed by
17 chapter 1.

18 “(f) Dividends or interest paid by a corporation to
19 another corporation if both corporations are members of
20 the same affiliated group which filed a consolidated return
21 under chapter 1 for the preceding taxable year of the payor
22 corporation.

23 “(g) Dividends or interest paid by a corporation to one
24 or more (1) governments, (2) political subdivisions thereof.

1 (3) international organizations, or (4) wholly owned in-
2 strumentalities or agencies of the foregoing, if the entire
3 class of stock in respect of which such dividend is paid, or the
4 entire class of obligations in respect of which such interest
5 is paid, is owned by one or more of such governments. sub-
6 divisions, organizations, instrumentalities, or agencies.

7 “(h) Interest on equipment trust certificates.

8 “(i) Dividends or interest paid by a foreign corpora-
9 tion, a nonresident alien individual, any partnership not en-
10 gaged in trade or business within the United States and
11 composed in whole or in part of nonresident aliens, or by
12 an international organization.

13 “(j) (1) Any payment of a dividend or interest (ex-
14 cept coupon bond interest) to (A) a foreign corporation
15 not engaged in trade or business within the United States,
16 (B) a nonresident alien individual, (C) any partnership
17 not engaged in trade or business within the United States
18 and composed in whole or in part of nonresident aliens, or
19 (D) any foreign government or international organization.

20 “(2) Any payment of coupon bond interest to a person
21 described in paragraph (1) of this subsection, but only if a
22 certificate filed (in such form and manner, and at such time,
23 as the Secretary may by regulations prescribe) with the
24 withholding agent discloses that the recipient of such pay-

1 ment is a person described in paragraph (1).

2 “(k) Any payment upon which the withholding agent
3 is required to deduct and withhold a tax under section 143
4 (a) (relating to tax-free covenant bonds, etc.) determined
5 without regard to the provisions of paragraph (2) of such
6 section.

7 “(l) Interest on an obligation of a corporation, issued
8 before January 1, 1951, containing a contract or provision
9 by which the obligor agrees to pay the interest without
10 deduction for any tax which the obligor may be required
11 to pay thereon or to retain therefrom under any law of the
12 United States.

13 “(m) Dividends paid pursuant to the terms of a lease
14 of property entered into prior to January 1, 1951, if under
15 such lease the shareholders of the lessor corporation are en-
16 titled to such dividends without deduction for any tax which
17 any law of the United States might require to be deducted
18 and withheld upon the payment of dividends.

19 “(n) Amounts (whether or not designated as divi-
20 dends) paid by a mutual savings bank, savings and loan
21 association, building and loan association, cooperative bank,
22 homestead association, credit union, or any similar organiza-
23 tion, in respect of withdrawable or repurchaseable shares,
24 investment certificates, or deposits.

1 **“SEC. 1203. RETURNS AND PAYMENT.**

2 “(a) **IN GENERAL.**—Every person required under this
3 subchapter to deduct and withhold any tax shall make a
4 return of such tax and shall pay such tax, at such time, for
5 such period, and in such manner as the Secretary may by
6 regulations prescribe, by making a return of the total amount
7 of dividends and interest with respect to which tax is
8 required to be deducted and withheld by such person under
9 this subchapter for such period and paying a tax, for which
10 such person shall be liable, in an amount equal to 20 per
11 centum of such total.

12 “(b) **ADJUSTMENT OF TAX.**—If more or less than the
13 correct amount of tax due for any period under subsection
14 (a) is paid with respect to such period, proper adjustments
15 with respect to the tax shall be made, without interest, in
16 such manner and at such times as may be prescribed by
17 regulations made under this subchapter.

18 **“SEC. 1204. CREDIT FOR REGULATED INVESTMENT COM-**
19 **PANIES AND PERSONAL HOLDING COMPANIES.**

20 “‘In the case of any withholding agent which is a regu-
21 lated investment company as defined in section 361 or a
22 personal holding company as defined in section 501, the
23 amount required to be deducted and withheld as tax under
24 this chapter with respect to dividends and interest received

1 by it during a taxable year shall be allowed, under regula-
2 tions prescribed by the Secretary, as a credit against (but
3 not in excess of) the tax for which such withholding agent
4 is liable under section 1203 (a) in respect of dividends and
5 interest paid by it during such year. For the purposes of
6 this section a dividend shall be considered as having been
7 paid within a taxable year (1) in the case of a regulated
8 investment company, if treated as paid during such taxable
9 year under section 362 (b) (8), or (2) in the case of a
10 personal holding company, if claimed under section 504 (c),
11 in computing undistributed subchapter A net income, in the
12 return for such year.

13 **“Subchapter B—Royalties**

14 **“SEC. 1220. DEFINITION OF ROYALTY.**

15 “As used in this chapter, the term ‘royalty’ means—

16 “(a) any rent or royalty in respect of mines, oil
17 and gas wells, and other natural deposits, including any
18 delay rental and any minimum royalty, whether or not
19 measured by production or by a share of gross or net
20 income therefrom, and any payment representing a
21 share of the gross or net income derived from the ex-
22 traction and sale of any natural deposit, but only if
23 the recipient of such rent, royalty, or payment is not
24 personally obligated to pay a proportionate share of
25 development or operating expenses. For the pur-

poses of this chapter, if a royalty, as defined in the preceding sentence, is paid in kind, such payment shall not constitute payment of a royalty, but if the mineral, oil, gas, or other natural deposit so received in kind is sold by or on behalf of the recipient to the producer or under a division order, the purchaser shall be considered as making payment of the royalty in an amount equal to the purchase price;

“(b) any payment, however designated, made by a corporation for the privilege of using any patent, pending application for a patent, copyright, secret process or formula, trade mark, or trade brand, including any payments made by an assignee or an exclusive licensee thereof, if measured by the use of a patent, pending application for a patent, copyright, secret process or formula, trade mark, or trade brand, or if payable over a period substantially coterminous with the period of the payor’s right to use such property, but not including any payments in respect of copyrights made to an organization to which subsection (c) is applicable; and

“(c) any payment made by an organization to its members in respect of the use of their copyrights, if such organization is authorized to license the use of such copyrights and has control of the receipt, allocation, and distribution of the payments made for such use.

1 **“SEC. 1221. INCOME TAX COLLECTED AT SOURCE.**

2 “(a) **REQUIREMENT OF WITHHOLDING.**—Every per-
3 son making payment after December 31, 1951, of a royalty
4 shall deduct and withhold upon such royalty a tax equal to
5 20 per centum of the amount thereof. If the withholding
6 agent is unable to determine the person to whom the royalty
7 is payable, such tax shall be deducted and withheld at the
8 time payment thereof would be made if such person were
9 known. For certain exemptions from withholding see sec-
10 tion 1222.

11 “(b) **TAX PAID BY RECIPIENT.**—If the withholding
12 agent, in violation of the provisions of this subchapter, fails
13 to deduct and withhold the tax under this subchapter, and
14 thereafter the tax against which such tax may be credited is
15 paid, the tax so required to be deducted and withheld shall
16 not be collected from the withholding agent, but this sub-
17 section shall in no case relieve the withholding agent from
18 liability for any penalties or additions to the tax otherwise
19 applicable in respect of such failure to deduct and withhold.

20 “(c) **LIABILITY FOR TAX.**—The withholding agent
21 shall be liable for the payment of the tax required to be
22 deducted and withheld under this subchapter, and shall not
23 be liable to any person for the amount of any such payment.

1 “(d) REFUNDS AND CREDITS.—

2 “(1) WITHHOLDING AGENT.—Where there has
3 been an overpayment of tax under this subchapter,
4 refund or credit shall be made to the withholding agent
5 only to the extent that the amount of such overpayment
6 was not deducted and withheld under this subchapter
7 by the withholding agent.

8 “(2) RECIPIENT.—For credit, against the income
9 tax of the recipient of the income, of amounts deducted
10 and withheld under this subchapter, see section 35.

11 **“SEC. 1222. EXEMPTIONS FROM WITHHOLDING.**

12 “The provisions of this chapter shall not apply to—

13 “(a) Royalties paid to a corporation or to a govern-
14 ment or political subdivision thereof.

15 “(b) Royalties paid by a foreign corporation, a non-
16 resident alien individual, a partnership not engaged in trade
17 or business within the United States and composed in whole
18 or in part of nonresident aliens, or an international organi-
19 zation.

20 “(c) Royalties paid to (1) a nonresident alien indi-
21 vidual, (2) a partnership not engaged in trade or business
22 within the United States and composed in whole or in part
23 of nonresident aliens, or (3) an international organization.

1 **“SEC. 1223. RETURNS AND PAYMENT.**

2 “(a) **IN GENERAL.**—Every person required under this
3 subchapter to deduct and withhold any tax shall make a
4 return of such tax and shall pay such tax, at such time, for
5 such period, and in such manner as the Secretary may by
6 regulations prescribe.

7 “(b) **ADJUSTMENT OF TAX.**—If more or less than the
8 correct amount of tax imposed by this subchapter is paid
9 with respect to any payment of royalties, proper adjustments,
10 with respect both to the tax and the amount to be deducted,
11 shall be made, without interest, in such manner and at such
12 times as may be prescribed by regulations made under this
13 subchapter.

14 **“SEC. 1224. RECEIPTS.**

15 “(a) **REQUIREMENT.**—Every person required under
16 this subchapter to deduct and withhold tax on a royalty,
17 shall, not later than January 31 of the year succeeding the
18 calendar year in which the royalty is paid, furnish to the
19 payee of the royalty a written statement showing the amount
20 of the royalties paid to such payee during such calendar
21 year, and the amount of tax deducted and withheld under
22 this subchapter in respect of such royalties.

23 “(b) **STATEMENTS TO CONSTITUTE INFORMATION**
24 **RETURNS.**—The statements required to be furnished by this

1 section in respect of any royalty shall be furnished at such
2 other times, shall contain such other information, and shall
3 be in such form as the Secretary may by regulations pre-
4 scribe. A duplicate of such statement if made and filed in
5 accordance with regulations prescribed by the Secretary shall
6 constitute the return required to be made in respect of such
7 royalties under section 147.

8 “(c) EXTENSION OF TIME.—The Secretary, under
9 regulations prescribed by him, may grant to any person a
10 reasonable extension of time (not in excess of 30 days) with
11 respect to the statements required to be furnished by such
12 person under this section.

13 **“SEC. 1225. PENALTIES.**

14 “(a) CRIMINAL PENALTY.—In lieu of any other pen-
15 alty provided by law (except the penalty provided by sub-
16 section (b) of this section), any person required under the
17 provisions of section 1224 to furnish a statement who will-
18 fully furnishes a false or fraudulent statement, or who will-
19 fully fails to furnish a statement in the manner, at the time,
20 and showing the information required under section 1224,
21 or regulations prescribed thereunder, shall for each such
22 offense, upon conviction thereof, be fined not more than
23 \$1,000, or imprisoned for not more than one year, or both.

24 “(b) CIVIL PENALTY.—In addition to the penalty pro-

1 vided by subsection (a) of this section, any person required
2 under the provisions of section 1224 to furnish a statement
3 who willfully furnishes a false or fraudulent statement, or
4 who willfully fails to furnish a statement in the manner, at
5 the time, and showing the information required under section
6 1224, or regulations prescribed thereunder, shall for each such
7 offense be subject to a civil penalty of not more than \$50.

1 **“Subchapter C—General Provisions**

2 **“SEC. 1230. DEFINITIONS.**

3 **“As used in this chapter—**

4 **“ (a) TAXABLE YEAR.—**The term ‘taxable year’ shall
5 have the same meaning as when used in chapter 1.

6 **“ (b) PERSON.—**The term ‘person’ includes any gov-
7 ernment or political subdivision, or agency or instrumentality
8 thereof.

9 **“ (c) NONRESIDENT ALIEN.—**The term ‘nonresident
10 alien individual’ includes an alien resident of Puerto Rico.

11 **“SEC. 1231. NONDEDUCTIBILITY OF TAX IN COMPUTING**
12 **NET INCOME.**

13 **“Any tax deducted and withheld under this chapter shall**
14 not be allowed as a deduction in computing net income for
15 the purpose of any tax on income imposed by Act of
16 Congress.

17 **“SEC. 1232. RETURN AND PAYMENT BY GOVERNMENTAL**
18 **PAYOR.**

19 **“If the person referred to in section 1203 (a) or 1223**
20 (a) is the United States, or a State, Territory, or political
21 subdivision thereof, or the District of Columbia, or any
22 agency or instrumentality of any one or more of the fore-

1 going, the return and payment required by such sections
2 shall be made by any officer or employee of the United
3 States, or of such State, Territory, or political subdivision,
4 or of the District of Columbia, or of such agency or instru-
5 mentality, as the case may be, having control of the payment
6 of the dividend, interest, or royalty, or appropriately desig-
7 nated for that purpose.

8 **“SEC. 1233. TAX-EXEMPT ORGANIZATIONS—REFUND.**

9 “In the case of a person which is exempt from the tax
10 imposed by chapter 1, if the amount required to be deducted
11 and withheld as tax under this chapter with respect to
12 dividends and interest received by it during any calendar
13 quarter, and the amount deducted and withheld as tax under
14 this chapter with respect to royalties received by it during
15 such calendar quarter, exceed the credit claimed by and
16 allowed to such person under section 1637 for such quarter,
17 the excess shall be immediately refunded or credited to such
18 person as an overpayment of the tax imposed by this chap-
19 ter, but only if claim therefor is filed (or, if no claim is
20 filed, if credit or refund is made) after the close of such
21 calendar quarter and on or before March 15 of the fourth
22 calendar year beginning after the close of such calendar
23 quarter. No interest shall be allowed or paid with respect
24 to any such refund or credit for any period prior to the date
25 on which claim for such refund or credit is filed or prior to

1 March 16 of the calendar year succeeding the close of the
2 calendar quarter in respect of which such refund or credit
3 is claimed, whichever date is the later.

4 **“SEC. 1234. FAILURE TO FILE RETURNS.**

5 “In case of a failure to make and file any return re-
6 quired under this chapter within the time prescribed by
7 law or prescribed by the Secretary in pursuance of law,
8 unless it is shown that such failure is due to reasonable cause
9 and not to willful neglect, the addition to the tax or taxes
10 required to be shown on such return shall not be less than \$5.

11 **“SEC. 1235. OTHER LAWS APPLICABLE.**

12 “All provisions of law, including penalties, applicable
13 with respect to any tax imposed by section 2700, and the
14 provisions of section 3661, shall, insofar as applicable and
15 not inconsistent with the provisions of this chapter, be ap-
16 plicable with respect to the tax under this chapter.”

17 **SEC. 202. CREDIT FOR TAX WITHHELD.**

18 Section 35 (relating to credit against income tax) is
19 hereby amended as follows:

20 (1) by striking from the heading thereof the words

21 **“ON WAGES”;**

22 (2) by inserting at the beginning of the first para-
23 graph thereof the following heading: **“(a) CREDIT FOR**
24 **TAX WITHHELD ON WAGES.—”;** and

1 (3) by inserting at the end thereof the following
2 new subsection:

3 “(b) CREDIT FOR TAX WITHHELD ON DIVIDENDS, IN-
4 TEREST, AND ROYALTIES.—Under regulations prescribed by
5 the Secretary—

6 “(1) IN GENERAL.—The amount required to be
7 deducted and withheld as tax under chapter 6 upon any
8 payment of a dividend or interest, and the amount de-
9 ducted and withheld as tax under such chapter upon
10 any payment of a royalty, shall be allowed as a credit,
11 to the recipient of the income, against the tax imposed
12 by this chapter for the taxable year in which the divi-
13 dend, interest, or royalty is received.

14 “(2) PARTNERSHIPS, TRUSTS, AND ESTATES.—If
15 the recipient of the dividend, interest, or royalty is a
16 partnership or a common trust fund, then the credit
17 shall not be allowed to such recipient, but the members
18 of the partnership, or the participants in the common
19 trust fund, as the case may be, shall be allowed their
20 proportionate share of such credit. If the recipient is
21 an estate or trust, and if any legatee, heir, or beneficiary
22 subject to the tax imposed by this chapter is required
23 to include a portion of such dividend, interest, or royalty
24 in computing his net income, such legatee, heir, or
25 beneficiary shall be allowed such portion of the credit

as is properly allocable to him on the basis of the income allocable to him under section 162 for the taxable year of the estate or trust, and such portion of the credit shall not be allowed to the estate or trust.

“(3) **REGULATED INVESTMENT COMPANIES AND PERSONAL HOLDING COMPANIES.**—In the case of a regulated investment company or a personal holding company, the credit provided in paragraph (1) shall be reduced by the amount of credit allowed such company under section 1204.

“(4) **TAX EXEMPT ORGANIZATIONS.**—The credit provided by this subsection shall not be allowed to any recipient which is exempt from income tax. For credit against the liability of such a recipient in respect of the employment taxes imposed by subchapter A and subchapter D of chapter 9, see section 1637. For refund under chapter 6 in the case of such a recipient, see section 1233.”

SEC. 203. CREDITS IN CASE OF ORGANIZATIONS EXEMPT FROM TAX.

Subchapter E of chapter 9 (relating to employment taxes) is hereby amended by adding after section 1636 the following new section:

1 **"SEC. 1637. SPECIAL CREDIT IN CASE OF ORGANIZATIONS**
2 **EXEMPT FROM INCOME TAX.**

3 "In the case of any person (including any government
4 or political subdivision, agency, or instrumentality thereof)
5 which is exempt from the tax imposed by chapter 1, the
6 amount required to be deducted and withheld as tax under
7 chapter 6 with respect to dividends and interest received
8 by it during any calendar quarter, and the amount deducted
9 and withheld as tax under such chapter with respect to
10 royalties received by it during such calendar quarter, shall
11 be allowed, under regulations prescribed by the Secretary,
12 as a credit against (but not in excess of) the amount shown
13 on the return of such person as its liability (after the adjust-
14 ments, if any, provided for in sections 1401 (c) and 1411)
15 for such quarter in respect of the taxes imposed by sub-
16 chapter A and subchapter D of this chapter. Such credit
17 shall be allowed only if claim therefor is made, in accord-
18 ance with such regulations, at the time of the filing of the
19 return under subchapter A and subchapter D for such quarter.
20 For refund under chapter 6, see section 1233."

21 **SEC. 204. TECHNICAL AMENDMENTS.**

22 (a) **TAX COMPUTED BY COLLECTOR.**—Section 51 (f)
23 (relating to tax computed by collector) is hereby amended
24 to read as follows:

25 “(f) **TAX COMPUTED BY COLLECTOR.**—

1 “(1) RETURN REQUIREMENTS.—An individual en-
2 titled to elect to pay the tax imposed by supplement T
3 whose gross income is less than \$5,000 and is entirely
4 from one or more of the following sources: wages as
5 defined in section 1621 (a), or dividends (other than
6 a capital gain dividend as defined in section 362 (b)
7 (7)) or interest on which tax is required to be deducted
8 and withheld under chapter 6, shall at his election be
9 relieved, by using the form prescribed as the form for
10 the return for the purposes of this subsection, from show-
11 ing on the return the tax imposed by this chapter. In
12 such case the tax shall be computed by the collector.

13 “(2) RESULT OF COMPUTATION.—After the col-
14 lector has computed the tax, he shall mail to the tax-
15 payer a notice stating the amount determined by the
16 collector as payable and making demand therefor.

17 “(3) REGULATIONS.—The Secretary shall prescribe
18 regulations for carrying out this subsection, and such
19 regulations may provide for the application of the rules
20 of this subsection to cases where the gross income in-
21 cludes items other than those enumerated in paragraph
22 (1) if the gross income from such other sources is not
23 more than \$200, and to cases where the gross income is
24 \$5,000 or more but not more than \$5,200. Such regu-
25 lations shall provide for the application of this sub-

1 section in the case of husband and wife, including pro-
2 visions determining when a joint return under this
3 subsection may be permitted or required and what con-
4 stitutes a joint return, whether the liability shall be joint
5 and several, and whether one spouse may make return
6 under this subsection and the other without regard to
7 this subsection.

8 “(4) METHOD OF ELECTION.—The election to
9 have the benefits of this subsection shall be made by
10 making return on the form prescribed as the form for
11 the return for the purposes of this subsection. An elec-
12 tion so made shall constitute an election to pay the tax
13 imposed by supplement T.”

14 (b) REQUIREMENT OF DECLARATION OF ESTIMATED
15 TAX.—Section 58 (a) (relating to declaration of estimated
16 tax) is hereby amended to read as follows:

17 “(a) REQUIREMENT OF DECLARATION.—Every in-
18 dividual (other than an estate or trust and other than a
19 nonresident alien with respect to whose wages, as defined
20 in section 1621 (a), withholding under subchapter D of
21 chapter 9 is not made applicable, but including every alien
22 individual who is a resident of Puerto Rico during the entire
23 taxable year) shall, at the time prescribed in subsection (d),

1 make a declaration of his estimated tax for the taxable
2 year if—

3 “(1) his gross income from wages (as defined in
4 section 1621) and from dividends, interest, and royal-
5 ties, as defined in chapter 6, upon which a tax is required
6 to be deducted and withheld under such chapter, can
7 reasonably be expected to exceed the sum of \$4,500
8 plus \$600 with respect to each exemption provided in
9 section 25 (b) ; or

10 “(2) his gross income from sources other than
11 wages (as defined in section 1621) and other than
12 dividends, interest, and royalties, as defined in chapter 6,
13 upon which a tax is required to be deducted and with-
14 held under such chapter, can reasonably be expected to
15 exceed \$100 for the taxable year and his gross income
16 to be \$600 or more.”

17 (c) CREDIT UNDER SECTION 143.—Section 143 (relat-
18 ing to withholding of tax at source) is hereby amended by
19 adding at the end thereof the following new subsection:

20 “(i) CREDIT FOR TAX WITHHELD AT SOURCE.—
21 Where any person is required to deduct and withhold a tax
22 under subsection (b) on an amount on which a tax was re-
23 quired to be deducted and withheld under subchapter A of
24 chapter 6, or on an amount on which a tax was deducted and

1 withheld under subchapter B of such chapter, such person
2 shall deduct and withhold only the excess of—

3 “(1) the amount which would be required to be
4 deducted and withheld under subsection (b) but for the
5 application of chapter 6, over

6 “(2) the amount required to be deducted and with-
7 held under subchapter A of chapter 6, or the amount
8 deducted and withheld under subchapter B of such
9 chapter, whichever is applicable.”

10 (d) CREDIT UNDER SECTION 144.—Section 144 (relat-
11 ing to payment of corporation income tax at source) is
12 hereby amended by striking out the period at the end
13 thereof and adding in lieu thereof the following: “: *Pro-*
14 *vided further*, That, where any person is required under
15 this section to deduct and withhold a tax on an amount
16 on which a tax was required to be deducted and withheld
17 under subchapter A of chapter 6, or on an amount on which
18 a tax was deducted and withheld under subchapter B of
19 such chapter, such person shall deduct and withhold only
20 the excess of—

21 “(1) the amount which would be required to be
22 deducted and withheld under this section but for the
23 application of chapter 6, over

1 “(2) the amount required to be deducted and with-
2 held under subchapter A of chapter 6, or the amount
3 deducted and withheld under subchapter B of such
4 chapter, whichever is applicable.”

5 (e) INFORMATION AT SOURCE.—Subsections (a) and
6 (b) of section 147 (relating to information at source) are
7 hereby amended to read as follows:

8 “(a) PAYMENTS OF RENT, SALARIES, INTEREST,
9 ETC.—All persons, in whatever capacity acting, including
10 lessees or mortgagors of real or personal property, fidu-
11 ciaries, and employers, making payment to another person,
12 of—

13 “(1) rent, salaries, wages, premiums, annuities,
14 compensations, remunerations, emoluments, or other
15 fixed or determinable gains, profits, and income (other
16 than payments described in section 148 (a) or 149), of
17 \$600 or more in any taxable year, or

18 “(2) interest, upon which tax is required to be
19 deducted and withheld under chapter 6, of \$300 or more
20 in any taxable year, or

21 “(3) interest, upon which tax is not required to be
22 deducted and withheld under chapter 6, of \$100 or more
23 in any taxable year,

1 or, in the case of such payments made by the United States,
2 the officers or employees of the United States having infor-
3 mation as to such payments and required to make returns
4 in regard thereto by the regulations hereinafter provided for,
5 shall render a true and accurate return to the Secretary,
6 under such regulations and in such form and manner and to
7 such extent as may be prescribed by him, setting forth the
8 amount of such gains, profits, and income, and the name and
9 address of the recipient of such payment.

10 “(b) RETURNS REGARDLESS OF AMOUNT OF PAY-
11 MENT.—Such returns may be required, regardless of
12 amounts, (1) in the case of payments of interest, and (2)
13 in the case of collections of items (not payable in the United
14 States) of interest upon the bonds of foreign countries and
15 interest upon the bonds of and dividends from foreign
16 corporations by persons undertaking as a matter of business
17 or for profit the collection of foreign payments of such
18 interest or dividends by means of coupons, checks, or bills
19 of exchange. This subsection shall not apply to payments
20 of interest (other than coupon bond interest) upon which
21 tax is required to be deducted and withheld under chapter 6.”

22 (f) INFORMATION BY CORPORATIONS.—Section 148

23 (a) (relating to information by corporations in the case of
24 dividend payments) is hereby amended by inserting a
25 comma in lieu of the period at the end thereof and adding

1 the following: “except that if the amount of dividends paid
 2 to any shareholder during a calendar year is less than \$300
 3 and tax is required to be deducted and withheld under chap-
 4 ter 6 upon the entire amount of such dividends, no such
 5 return shall be required with respect to such shareholder for
 6 such calendar year.”

7 (g) CLERICAL AMENDMENT.—Section 169 (b) (re-
 8 lating to taxation of common trust funds) is hereby amended
 9 by striking out “or chapter 6” and by striking out “chapters”
 10 and inserting in lieu thereof “chapter”.

11 (h) AMOUNT OF CREDIT CONSIDERED AS PAYMENT.—
 12 Section 322 (a) (2) (relating to refunds and credits) is
 13 hereby amended to read as follows:

14 “(2) TREATMENT OF CREDITS.—The amount of
 15 the credit provided in section 35 against the tax for any
 16 taxable year shall, to the extent thereof, be considered
 17 as payment of the tax for such year, whether or not the
 18 withholding agent has paid to the collector the amount
 19 of the tax deducted and withheld at the source under
 20 subchapter D of chapter 9 or subchapter B of chapter 6
 21 or the amount of tax required to be deducted and with-
 22 held at source under subchapter A of chapter 6.”

23 (i) SPECIAL PERIOD OF LIMITATIONS FOR SMALL
 24 REFUNDS ON TAX WITHHELD AT SOURCE.—Section 322
 25 (b) (relating to statute of limitations on filing claim for

1 credit or refund) is hereby amended by adding at the end
2 thereof the following new paragraph:

3 “(7) SPECIAL PERIOD OF LIMITATIONS WITH RE-
4 SPECT TO CERTAIN OVERPAYMENTS RESULTING FROM
5 TAX WITHHELD ON DIVIDENDS, INTEREST, OR ROYAL-
6 TIES.—In the case of an individual filing a claim for
7 credit or refund of an overpayment for a taxable year
8 for which he was not required under section 51 (a) to
9 make a return, if the overpayment is attributable to the
10 credit allowed under section 35 for tax required to be
11 deducted and withheld under subchapter A of chapter 6
12 (relating to tax withheld at source on dividends and
13 interest) or for tax deducted and withheld under sub-
14 chapter B of such chapter (relating to tax withheld at
15 source on royalties), in lieu of the period of limitation
16 prescribed in paragraph (1), the period shall be seven
17 years from the date prescribed by law for filing a return
18 for the taxable year with respect to which the claim is
19 made. In such a case, the amount of credit or refund
20 may exceed the portion of the tax paid within the period
21 prescribed in paragraph (2), to the extent of the
22 amount of the overpayment attributable to such credit

1 allowed under section 35, or to the extent of \$2, which-
2 ever is the lesser.”

3 (j) PRESUMPTIONS AS TO DATE OF PAYMENT.—Sec-
4 tion 322 (e) (relating to presumption as to date of pay-
5 ment) is hereby amended to read as follows:

6 “(e) PRESUMPTIONS AS TO DATE OF PAYMENT.—For
7 the purpose of this section—

8 “(1) any amount allowable as a credit under sec-
9 tion 32 (relating to credit for tax withheld at source on
10 tax-free covenant bonds and on payments to nonresi-
11 dent aliens and foreign corporations) or under section
12 35 (relating to credit for tax withheld at source on
13 wages, dividends, interest, and royalties) shall, in re-
14 spect of the person entitled to such credit, be deemed
15 to have been paid by him on the last day prescribed
16 by law (determined without regard to any extension of
17 time granted the taxpayer) for the filing of the return
18 for his taxable year with respect to which such amount
19 is allowable as a credit; and

20 “(2) any amount paid as estimated tax for any
21 taxable year shall be deemed to have been paid on the
22 last day prescribed by law (determined without regard

1 to any extension of time granted the taxpayer) for the
2 filing of the return for such taxable year.”

3 (k) INTEREST ON OVERPAYMENTS.—Section 3771 (f)
4 is hereby amended to read as follows:

5 “(f) TAX WITHHELD AT SOURCE AND ESTIMATED
6 TAX.—

7 “(1) CLAIMS FILED UNDER SPECIAL PERIOD OF
8 LIMITATIONS PROVIDED IN SECTION 322 (b) (7).—If
9 credit or refund of the overpayment would be barred
10 under section 322 (b) except for paragraph (7) thereof,
11 no interest shall be allowed or paid with respect to the
12 overpayment for any period ending prior to the expira-
13 tion of six months after the date on which the claim
14 was filed.

15 “(2) CROSS REFERENCE.—For date of payment in
16 respect of estimated tax and tax withheld at source, see
17 section 322 (e).”

18 (l) DEFINITION OF WITHHOLDING AGENT.—Section
19 3797 (a) (16) is hereby amended by striking out “143 or
20 144”, and by inserting in lieu thereof “143, 144, 1201, or
21 1221”.

22 (m) EFFECTIVE DATE.—The amendments made by
23 subsections (a) and (b) shall be applicable to taxable years
24 beginning after December 31, 1951.

1 **PART II—INCREASE IN WITHHOLDING OF TAX**
2 **AT SOURCE ON WAGES**

3 **SEC. 221. PERCENTAGE METHOD OF WITHHOLDING.**

4 Section 1622 (a) (relating to percentage method of
5 withholding) is hereby amended by striking out “18 per
6 centum” and inserting in lieu thereof “20 per centum”.

7 **SEC. 222. WAGE BRACKET WITHHOLDING.**

8 The tables contained in section 1622 (c) (1) (relating
9 to wage bracket withholding) are hereby amended to read
10 as follows:

“If the payroll period with respect to an employee is weekly

And the wages are—		And the number of withholding exemptions claimed is—										
At least	But less than	0	1	2	3	4	5	6	7	8	9	10 or more
The amount of tax to be withheld shall be—												
		20% of wages	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
\$0	\$13	\$2.70	.10	0	0	0	0	0	0	0	0	0
\$13	\$14	2.90	.30	0	0	0	0	0	0	0	0	0
\$14	\$15	3.10	.50	0	0	0	0	0	0	0	0	0
\$15	\$16	3.30	.70	0	0	0	0	0	0	0	0	0
\$16	\$17	3.50	.90	0	0	0	0	0	0	0	0	0
\$17	\$18	3.70	1.20	0	0	0	0	0	0	0	0	0
\$18	\$19	3.90	1.40	0	0	0	0	0	0	0	0	0
\$19	\$20	4.20	1.60	0	0	0	0	0	0	0	0	0
\$20	\$21	4.40	1.80	0	0	0	0	0	0	0	0	0
\$21	\$22	4.60	2.00	0	0	0	0	0	0	0	0	0
\$22	\$23	4.80	2.20	0	0	0	0	0	0	0	0	0
\$23	\$24	5.00	2.40	0	0	0	0	0	0	0	0	0
\$24	\$25	5.20	2.60	0	0	0	0	0	0	0	0	0
\$25	\$26	5.40	2.80	.20	0	0	0	0	0	0	0	0
\$26	\$27	5.60	3.00	.40	0	0	0	0	0	0	0	0
\$27	\$28	5.80	3.20	.60	0	0	0	0	0	0	0	0
\$28	\$29	6.00	3.40	.80	0	0	0	0	0	0	0	0
\$29	\$30	6.20	3.60	1.00	0	0	0	0	0	0	0	0
\$30	\$31	6.40	3.80	1.20	0	0	0	0	0	0	0	0
\$31	\$32	6.60	4.00	1.40	0	0	0	0	0	0	0	0
\$32	\$33	6.80	4.20	1.60	0	0	0	0	0	0	0	0
\$33	\$34	7.00	4.40	1.80	0	0	0	0	0	0	0	0
\$34	\$35	7.20	4.60	2.00	0	0	0	0	0	0	0	0
\$35	\$36	7.40	4.80	2.20	0	0	0	0	0	0	0	0
\$36	\$37	7.60	5.00	2.40	0	0	0	0	0	0	0	0
\$37	\$38	7.80	5.20	2.60	0	0	0	0	0	0	0	0
\$38	\$39	8.00	5.40	2.80	.20	0	0	0	0	0	0	0
\$39	\$40	8.20	5.60	3.00	.40	0	0	0	0	0	0	0
\$40	\$41	8.40	5.80	3.20	.60	0	0	0	0	0	0	0
\$41	\$42	8.60	6.00	3.40	.80	0	0	0	0	0	0	0
\$42	\$43	8.80	6.20	3.60	1.00	0	0	0	0	0	0	0
\$43	\$44	9.00	6.40	3.80	1.20	0	0	0	0	0	0	0
\$44	\$45	9.20	6.60	4.00	1.40	0	0	0	0	0	0	0
\$45	\$46	9.40	6.80	4.20	1.60	0	0	0	0	0	0	0
\$46	\$47	9.60	7.00	4.40	1.80	0	0	0	0	0	0	0
\$47	\$48	9.80	7.20	4.60	2.00	0	0	0	0	0	0	0
\$48	\$49	10.00	7.40	4.80	2.20	0	0	0	0	0	0	0
\$49	\$50	10.20	7.60	5.00	2.40	0	0	0	0	0	0	0
\$50	\$51	10.40	7.80	5.20	2.60	0	0	0	0	0	0	0
\$51	\$52	10.60	8.00	5.40	2.80	.20	0	0	0	0	0	0
\$52	\$53	10.80	8.20	5.60	3.00	.40	0	0	0	0	0	0
\$53	\$54	11.00	8.40	5.80	3.20	.70	0	0	0	0	0	0
\$54	\$55	11.20	8.60	6.00	3.50	.90	0	0	0	0	0	0
\$55	\$56	11.40	8.80	6.20	3.70	1.10	0	0	0	0	0	0
\$56	\$57	11.60	9.00	6.50	3.90	1.30	0	0	0	0	0	0
\$57	\$58	11.80	9.30	6.70	4.10	1.50	0	0	0	0	0	0
\$58	\$59	12.00	9.50	6.90	4.30	1.70	0	0	0	0	0	0
\$59	\$60	12.40	9.80	7.20	4.60	2.00	0	0	0	0	0	0
\$60	\$62	12.80	10.20	7.60	5.00	2.40	0	0	0	0	0	0
\$62	\$64	13.20	10.60	8.00	5.40	2.80	.20	0	0	0	0	0
\$64	\$66	13.60	11.00	8.40	5.80	3.20	.60	0	0	0	0	0
\$66	\$68	14.00	11.40	8.80	6.20	3.60	1.00	0	0	0	0	0
\$68	\$70	14.40	11.80	9.20	6.60	4.00	1.40	0	0	0	0	0
\$70	\$72	14.80	12.20	9.60	7.00	4.40	1.80	0	0	0	0	0
\$72	\$74	15.20	12.60	10.00	7.40	4.80	2.20	0	0	0	0	0
\$74	\$76	15.60	13.00	10.40	7.80	5.20	2.60	0	0	0	0	0
\$76	\$78	16.00	13.40	10.80	8.20	5.60	3.00	.40	0	0	0	0
\$78	\$80	16.40	13.80	11.20	8.60	6.00	3.40	.80	0	0	0	0
\$80	\$82	16.80	14.20	11.60	9.00	6.40	3.80	1.20	0	0	0	0
\$82	\$84	17.20	14.60	12.00	9.40	6.80	4.20	1.60	0	0	0	0
\$84	\$86	17.60	15.00	12.40	9.80	7.20	4.60	2.00	0	0	0	0
\$86	\$88	18.00	15.40	12.80	10.20	7.60	5.00	2.40	0	0	0	0
\$88	\$90	18.40	15.80	13.20	10.60	8.00	5.40	2.80	.30	0	0	0
\$90	\$92	18.80	16.20	13.60	11.00	8.40	5.90	3.30	.70	0	0	0
\$92	\$94	19.20	16.60	14.00	11.40	8.90	6.30	3.70	1.10	0	0	0
\$94	\$96	19.60	17.00	14.50	11.90	9.30	6.70	4.10	1.50	0	0	0
\$96	\$98	20.00	17.50	14.90	12.30	9.70	7.10	4.50	1.90	0	0	0
\$98	\$100	20.80	18.20	15.60	13.00	10.40	7.80	5.20	2.60	0	0	0
\$100	\$105	21.80	19.20	16.60	14.00	11.40	8.80	6.20	3.60	1.00	0	0
\$105	\$110	22.80	20.20	17.60	15.00	12.40	9.80	7.20	4.60	2.00	0	0
\$110	\$115	23.80	21.20	18.60	16.00	13.40	10.80	8.20	5.60	3.00	.40	0
\$115	\$120	24.80	22.20	19.60	17.00	14.40	11.80	9.20	6.60	4.00	1.40	0
\$120	\$125	25.80	23.20	20.60	18.00	15.40	12.80	10.20	7.60	5.00	2.50	0
\$125	\$130	26.80	24.20	21.60	19.00	16.40	13.90	11.30	8.70	6.10	3.50	.90
\$130	\$135	27.80	25.20	22.70	20.10	17.50	14.90	12.30	9.70	7.10	4.50	1.90
\$135	\$140	28.90	26.30	23.70	21.10	18.50	15.90	13.30	10.70	8.10	5.50	2.90
\$140	\$145	29.90	27.30	24.70	22.10	19.50	16.90	14.30	11.70	9.10	6.50	3.90
\$145	\$150	31.40	28.80	26.20	23.60	21.00	18.40	15.80	13.20	10.60	8.00	5.40
\$150	\$160	33.40	30.80	28.20	25.60	23.00	20.40	17.80	15.20	12.60	10.00	7.50
\$160	\$170	35.40	32.80	30.20	27.60	25.10	22.50	19.90	17.30	14.70	12.10	9.50
\$170	\$180	37.50	34.90	32.30	29.70	27.10	24.50	21.90	19.30	16.70	14.10	11.50
\$180	\$190	39.50	36.90	34.30	31.70	29.10	26.50	23.90	21.30	18.70	16.10	13.50
\$190	\$200											
\$200 and over		20 percent of the excess over \$200 plus—										
		40.50	37.90	35.30	32.70	30.10	27.50	24.90	22.30	19.70	17.10	14.50

“If the payroll period with respect to an employee is biweekly

And the wages are—		And the number of withholding exemptions claimed is—										
At least	But less than	0	1	2	3	4	5	6	7	8	9	10 or more
The amount of tax to be withheld shall be—												
		20% of wages	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
\$0	\$26	\$5.50	.30	0	0	0	0	0	0	0	0	0
\$26	\$28	5.90	.70	0	0	0	0	0	0	0	0	0
\$28	\$30	6.30	1.10	0	0	0	0	0	0	0	0	0
\$30	\$32	6.70	1.50	0	0	0	0	0	0	0	0	0
\$32	\$34	7.10	1.90	0	0	0	0	0	0	0	0	0
\$34	\$36	7.50	2.30	0	0	0	0	0	0	0	0	0
\$36	\$38	7.90	2.70	0	0	0	0	0	0	0	0	0
\$38	\$40	8.30	3.10	0	0	0	0	0	0	0	0	0
\$40	\$42	8.70	3.50	0	0	0	0	0	0	0	0	0
\$42	\$44	9.10	3.90	0	0	0	0	0	0	0	0	0
\$44	\$46	9.50	4.30	0	0	0	0	0	0	0	0	0
\$46	\$48	9.90	4.70	0	0	0	0	0	0	0	0	0
\$48	\$50	10.30	5.10	0	0	0	0	0	0	0	0	0
\$50	\$52	10.70	5.50	.30	0	0	0	0	0	0	0	0
\$52	\$54	11.10	5.90	.80	0	0	0	0	0	0	0	0
\$54	\$56	11.50	6.40	1.20	0	0	0	0	0	0	0	0
\$56	\$58	11.90	6.80	1.60	0	0	0	0	0	0	0	0
\$58	\$60	12.40	7.20	2.00	0	0	0	0	0	0	0	0
\$60	\$62	12.80	7.60	2.40	0	0	0	0	0	0	0	0
\$62	\$64	13.20	8.00	2.80	0	0	0	0	0	0	0	0
\$64	\$66	13.60	8.40	3.20	0	0	0	0	0	0	0	0
\$66	\$68	14.00	8.80	3.60	0	0	0	0	0	0	0	0
\$68	\$70	14.40	9.20	4.00	0	0	0	0	0	0	0	0
\$70	\$72	14.80	9.60	4.40	0	0	0	0	0	0	0	0
\$72	\$74	15.20	10.00	4.80	0	0	0	0	0	0	0	0
\$74	\$76	15.60	10.40	5.20	0	0	0	0	0	0	0	0
\$76	\$78	16.00	10.80	5.60	.40	0	0	0	0	0	0	0
\$78	\$80	16.40	11.20	6.00	.80	0	0	0	0	0	0	0
\$80	\$82	16.80	11.60	6.40	1.20	0	0	0	0	0	0	0
\$82	\$84	17.20	12.00	6.80	1.60	0	0	0	0	0	0	0
\$84	\$86	17.60	12.40	7.20	2.00	0	0	0	0	0	0	0
\$86	\$88	18.00	12.80	7.60	2.40	0	0	0	0	0	0	0
\$88	\$90	18.40	13.20	8.00	2.90	0	0	0	0	0	0	0
\$90	\$92	18.80	13.60	8.40	3.30	0	0	0	0	0	0	0
\$92	\$94	19.20	14.00	8.90	3.70	0	0	0	0	0	0	0
\$94	\$96	19.60	14.50	9.30	4.10	0	0	0	0	0	0	0
\$96	\$98	20.00	14.90	9.70	4.50	0	0	0	0	0	0	0
\$98	\$100	20.50	15.30	10.10	4.90	0	0	0	0	0	0	0
\$100	\$102	20.90	15.70	10.50	5.30	.10	0	0	0	0	0	0
\$102	\$104	21.30	16.10	10.90	5.70	.50	0	0	0	0	0	0
\$104	\$106	21.70	16.50	11.30	6.10	.90	0	0	0	0	0	0
\$106	\$108	22.10	16.90	11.70	6.50	1.30	0	0	0	0	0	0
\$108	\$110	22.50	17.30	12.10	6.90	1.70	0	0	0	0	0	0
\$110	\$112	22.90	17.70	12.50	7.30	2.10	0	0	0	0	0	0
\$112	\$114	23.30	18.10	12.90	7.70	2.50	0	0	0	0	0	0
\$114	\$116	23.70	18.50	13.30	8.10	2.90	0	0	0	0	0	0
\$116	\$118	24.10	18.90	13.70	8.50	3.30	0	0	0	0	0	0
\$118	\$120	24.70	19.50	14.30	9.10	3.90	0	0	0	0	0	0
\$120	\$124	25.50	20.30	15.10	9.90	4.70	0	0	0	0	0	0
\$124	\$128	26.30	21.10	15.90	10.70	5.60	.40	0	0	0	0	0
\$128	\$132	27.10	21.90	16.80	11.60	6.40	1.20	0	0	0	0	0
\$132	\$136	27.90	22.80	17.60	12.40	7.20	2.00	0	0	0	0	0
\$136	\$140	28.80	23.60	18.40	13.20	8.00	2.80	0	0	0	0	0
\$140	\$144	29.60	24.40	19.20	14.00	8.80	3.60	0	0	0	0	0
\$144	\$148	30.40	25.20	20.00	14.80	9.60	4.40	0	0	0	0	0
\$148	\$152	31.20	26.00	20.80	15.60	10.40	5.20	0	0	0	0	0
\$152	\$156	32.00	26.80	21.60	16.40	11.20	6.00	.80	0	0	0	0
\$156	\$160	32.80	27.60	22.40	17.20	12.00	6.80	1.70	0	0	0	0
\$160	\$164	33.60	28.40	23.20	18.00	12.80	7.70	2.50	0	0	0	0
\$164	\$168	34.40	29.20	24.00	18.80	13.70	8.50	3.30	0	0	0	0
\$168	\$172	35.20	30.00	24.90	19.70	14.50	9.30	4.10	0	0	0	0
\$172	\$176	36.00	30.90	25.70	20.50	15.30	10.10	4.90	0	0	0	0
\$176	\$180	36.90	31.70	26.50	21.30	16.10	10.90	5.70	.50	0	0	0
\$180	\$184	37.70	32.50	27.30	22.10	16.90	11.70	6.50	1.30	0	0	0
\$184	\$188	38.50	33.30	28.10	22.90	17.70	12.50	7.30	2.10	0	0	0
\$188	\$192	39.30	34.10	28.90	23.70	18.50	13.30	8.10	2.90	0	0	0
\$192	\$196	40.10	34.90	29.70	24.50	19.30	14.10	8.90	3.70	0	0	0
\$196	\$200	41.50	36.30	31.10	25.90	20.70	15.60	10.40	5.20	0	0	0
\$200	\$210	43.50	38.30	33.20	28.00	22.80	17.60	12.40	7.20	2.00	0	0
\$210	\$220	45.60	40.40	35.20	30.00	24.80	19.60	14.40	9.20	4.00	0	0
\$220	\$230	47.60	42.40	37.20	32.00	26.80	21.60	16.40	11.20	6.00	.90	0
\$230	\$240	49.60	44.40	39.20	34.00	28.80	23.70	18.50	13.30	8.10	2.90	0
\$240	\$250	51.60	46.40	41.30	36.10	30.90	25.70	20.50	15.30	10.10	4.90	0
\$250	\$260	53.70	48.50	43.30	38.10	32.90	27.70	22.50	17.30	12.10	6.90	1.70
\$260	\$270	55.70	50.50	45.30	40.10	34.90	29.70	24.50	19.30	14.10	9.00	3.80
\$270	\$280	57.70	52.50	47.30	42.10	36.90	31.80	26.60	21.40	16.20	11.00	5.80
\$280	\$290	59.70	54.50	49.40	44.20	39.00	33.80	28.60	23.40	18.20	13.00	7.80
\$290	\$300	62.80	57.60	52.40	47.20	42.00	36.80	31.60	26.40	21.20	16.00	10.90
\$300	\$320	66.80	61.60	56.40	51.20	46.10	40.90	35.70	30.50	25.30	20.10	14.90
\$320	\$340	70.90	65.70	60.50	55.30	50.10	44.90	39.70	34.50	29.30	24.10	19.00
\$340	\$360	74.90	69.70	64.50	59.30	54.20	49.00	43.80	38.60	33.40	28.20	23.00
\$360	\$380	79.00	73.80	68.60	63.40	58.20	53.00	47.80	42.60	37.40	32.20	27.10
\$380	\$400											
\$400 and over		20 percent of the excess over \$400 plus—										
		81.00	75.80	70.60	65.40	60.20	55.00	49.80	44.70	39.50	34.30	29.10

"If the payroll period with respect to an employee is semimonthly

And the wages are—		And the number of withholding exemptions claimed is—										
At least	But less than	0	1	2	3	4	5	6	7	8	9	10 or more
The amount of tax to be withheld shall be—												
\$0.....	\$28.....	20% of wages	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
\$28.....	\$30.....	\$5.90	.20	0	0	0	0	0	0	0	0	0
\$30.....	\$32.....	6.30	.70	0	0	0	0	0	0	0	0	0
\$32.....	\$34.....	6.70	1.10	0	0	0	0	0	0	0	0	0
\$34.....	\$36.....	7.10	1.50	0	0	0	0	0	0	0	0	0
\$36.....	\$38.....	7.50	1.90	0	0	0	0	0	0	0	0	0
\$38.....	\$40.....	7.90	2.30	0	0	0	0	0	0	0	0	0
\$40.....	\$42.....	8.30	2.70	0	0	0	0	0	0	0	0	0
\$42.....	\$44.....	8.70	3.10	0	0	0	0	0	0	0	0	0
\$44.....	\$46.....	9.10	3.50	0	0	0	0	0	0	0	0	0
\$46.....	\$48.....	9.50	3.90	0	0	0	0	0	0	0	0	0
\$48.....	\$50.....	9.90	4.30	0	0	0	0	0	0	0	0	0
\$50.....	\$52.....	10.30	4.70	0	0	0	0	0	0	0	0	0
\$52.....	\$54.....	10.70	5.10	0	0	0	0	0	0	0	0	0
\$54.....	\$56.....	11.10	5.50	0	0	0	0	0	0	0	0	0
\$56.....	\$58.....	11.50	5.90	.30	0	0	0	0	0	0	0	0
\$58.....	\$60.....	11.90	6.30	.70	0	0	0	0	0	0	0	0
\$60.....	\$62.....	12.40	6.70	1.10	0	0	0	0	0	0	0	0
\$62.....	\$64.....	12.80	7.10	1.50	0	0	0	0	0	0	0	0
\$64.....	\$66.....	13.20	7.50	1.90	0	0	0	0	0	0	0	0
\$66.....	\$68.....	13.60	7.90	2.30	0	0	0	0	0	0	0	0
\$68.....	\$70.....	14.00	8.30	2.70	0	0	0	0	0	0	0	0
\$70.....	\$72.....	14.40	8.80	3.10	0	0	0	0	0	0	0	0
\$72.....	\$74.....	14.80	9.20	3.50	0	0	0	0	0	0	0	0
\$74.....	\$76.....	15.20	9.60	3.90	0	0	0	0	0	0	0	0
\$76.....	\$78.....	15.60	10.00	4.30	0	0	0	0	0	0	0	0
\$78.....	\$80.....	16.00	10.40	4.70	0	0	0	0	0	0	0	0
\$80.....	\$82.....	16.40	10.80	5.20	0	0	0	0	0	0	0	0
\$82.....	\$84.....	16.80	11.20	5.60	0	0	0	0	0	0	0	0
\$84.....	\$86.....	17.20	11.60	6.00	.30	0	0	0	0	0	0	0
\$86.....	\$88.....	17.60	12.00	6.40	.70	0	0	0	0	0	0	0
\$88.....	\$90.....	18.00	12.40	6.80	1.10	0	0	0	0	0	0	0
\$90.....	\$92.....	18.40	12.80	7.20	1.60	0	0	0	0	0	0	0
\$92.....	\$94.....	18.80	13.20	7.60	2.00	0	0	0	0	0	0	0
\$94.....	\$96.....	19.20	13.60	8.00	2.40	0	0	0	0	0	0	0
\$96.....	\$98.....	19.60	14.00	8.40	2.80	0	0	0	0	0	0	0
\$98.....	\$100.....	20.00	14.40	8.80	3.20	0	0	0	0	0	0	0
\$100.....	\$102.....	20.50	14.80	9.20	3.60	0	0	0	0	0	0	0
\$102.....	\$104.....	20.90	15.20	9.60	4.00	0	0	0	0	0	0	0
\$104.....	\$106.....	21.30	15.60	10.00	4.40	0	0	0	0	0	0	0
\$106.....	\$108.....	21.70	16.00	10.40	4.80	0	0	0	0	0	0	0
\$108.....	\$110.....	22.10	16.40	10.80	5.20	0	0	0	0	0	0	0
\$110.....	\$112.....	22.50	16.90	11.20	5.60	0	0	0	0	0	0	0
\$112.....	\$114.....	22.90	17.30	11.60	6.00	.40	0	0	0	0	0	0
\$114.....	\$116.....	23.30	17.70	12.00	6.40	.80	0	0	0	0	0	0
\$116.....	\$118.....	23.70	18.10	12.40	6.80	1.20	0	0	0	0	0	0
\$118.....	\$120.....	24.10	18.50	12.80	7.20	1.60	0	0	0	0	0	0
\$120.....	\$124.....	24.70	19.10	13.50	7.80	2.20	0	0	0	0	0	0
\$124.....	\$128.....	25.50	19.90	14.30	8.60	3.00	0	0	0	0	0	0
\$128.....	\$132.....	26.30	20.70	15.10	9.50	3.80	0	0	0	0	0	0
\$132.....	\$136.....	27.10	21.50	15.90	10.30	4.60	0	0	0	0	0	0
\$136.....	\$140.....	27.90	22.30	16.70	11.10	5.40	0	0	0	0	0	0
\$140.....	\$144.....	28.80	23.10	17.50	11.90	6.30	.60	0	0	0	0	0
\$144.....	\$148.....	29.60	23.90	18.30	12.70	7.10	1.40	0	0	0	0	0
\$148.....	\$152.....	30.40	24.80	19.10	13.50	7.90	2.30	0	0	0	0	0
\$152.....	\$156.....	31.20	25.60	19.90	14.30	8.70	3.10	0	0	0	0	0
\$156.....	\$160.....	32.00	26.40	20.70	15.10	9.50	3.90	0	0	0	0	0
\$160.....	\$164.....	32.80	27.20	21.60	15.90	10.30	4.70	0	0	0	0	0
\$164.....	\$168.....	33.60	28.00	22.40	16.70	11.10	5.50	0	0	0	0	0
\$168.....	\$172.....	34.40	28.80	23.20	17.60	11.90	6.30	.70	0	0	0	0
\$172.....	\$176.....	35.20	29.60	24.00	18.40	12.70	7.10	1.50	0	0	0	0
\$176.....	\$180.....	36.00	30.40	24.80	19.20	13.50	7.90	2.30	0	0	0	0
\$180.....	\$184.....	36.90	31.20	25.60	20.00	14.40	8.70	3.10	0	0	0	0
\$184.....	\$188.....	37.70	32.00	26.40	20.80	15.20	9.50	3.90	0	0	0	0
\$188.....	\$192.....	38.50	32.90	27.20	21.60	16.00	10.40	4.70	0	0	0	0
\$192.....	\$196.....	39.30	33.70	28.00	22.40	16.80	11.20	5.50	0	0	0	0
\$196.....	\$200.....	40.10	34.50	28.80	23.20	17.60	12.00	6.30	.70	0	0	0
\$200.....	\$210.....	41.50	35.90	30.30	24.60	19.00	13.40	7.80	2.10	0	0	0
\$210.....	\$220.....	43.50	37.90	32.30	26.70	21.00	15.40	9.80	4.20	0	0	0
\$220.....	\$230.....	45.60	39.90	34.30	28.70	23.10	17.40	11.80	6.20	.60	0	0
\$230.....	\$240.....	47.60	42.00	36.30	30.70	25.10	19.50	13.80	8.20	2.60	0	0
\$240.....	\$250.....	49.60	44.00	38.40	32.70	27.10	21.50	15.90	10.20	4.60	0	0
\$250.....	\$260.....	51.60	46.00	40.40	34.80	29.10	23.50	17.90	12.30	6.60	1.00	0
\$260.....	\$270.....	53.70	48.00	42.40	36.80	31.20	25.50	19.90	14.30	8.70	3.00	0
\$270.....	\$280.....	55.70	50.10	44.40	38.80	33.20	27.60	21.90	16.30	10.70	5.10	0
\$280.....	\$290.....	57.70	52.10	46.50	40.80	35.20	29.60	24.00	18.30	12.70	7.10	1.50
\$290.....	\$300.....	59.70	54.10	48.50	42.90	37.20	31.60	26.00	20.40	14.70	9.10	3.50
\$300.....	\$320.....	62.80	57.20	51.50	45.90	40.30	34.70	29.00	23.40	17.80	12.20	6.50
\$320.....	\$340.....	66.80	61.20	55.60	50.00	44.30	38.70	33.10	27.50	21.80	16.20	10.60
\$340.....	\$360.....	70.90	65.30	59.60	54.00	48.40	42.80	37.10	31.50	25.90	20.30	14.60
\$360.....	\$380.....	74.90	69.30	63.70	58.10	52.40	46.80	41.20	35.60	29.90	24.30	18.70
\$380.....	\$400.....	79.00	73.40	67.70	62.10	56.50	50.90	45.20	39.60	34.00	28.40	22.70
\$400.....	\$420.....	83.00	77.40	71.80	66.20	60.50	54.90	49.30	43.70	38.00	32.40	26.80
\$420.....	\$440.....	87.10	81.50	75.80	70.20	64.60	59.00	53.30	47.70	42.10	36.50	30.80
\$440.....	\$460.....	91.10	85.50	79.90	74.30	68.60	63.00	57.40	51.80	46.10	40.50	34.90
\$460.....	\$480.....	95.20	89.60	83.90	78.30	72.70	67.10	61.40	55.80	50.20	44.60	38.90
\$480.....	\$500.....	99.20	93.60	88.00	82.40	76.70	71.10	65.50	59.90	54.20	48.60	43.00
\$500 and over.....		20 percent of the excess over \$500 plus—										
		101.30	95.60	90.00	84.40	78.80	73.10	67.50	61.90	56.30	50.60	45.00

"If the payroll period with respect to an employee is monthly

And the wages are—		And the number of withholding exemptions claimed is—										
At least	But less than	0	1	2	3	4	5	6	7	8	9	10 or more
The amount of tax to be withheld shall be—												
\$0	\$56	20% of wages	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
\$56	\$60	\$11.70	.50	0	0	0	0	0	0	0	0	0
\$60	\$64	12.60	1.30	0	0	0	0	0	0	0	0	0
\$64	\$68	13.40	2.10	0	0	0	0	0	0	0	0	0
\$68	\$72	14.20	2.90	0	0	0	0	0	0	0	0	0
\$72	\$76	15.00	3.70	0	0	0	0	0	0	0	0	0
\$76	\$80	15.80	4.50	0	0	0	0	0	0	0	0	0
\$80	\$84	16.60	5.40	0	0	0	0	0	0	0	0	0
\$84	\$88	17.40	6.20	0	0	0	0	0	0	0	0	0
\$88	\$92	18.20	7.00	0	0	0	0	0	0	0	0	0
\$92	\$96	19.00	7.80	0	0	0	0	0	0	0	0	0
\$96	\$100	19.80	8.60	0	0	0	0	0	0	0	0	0
\$100	\$104	20.70	9.40	0	0	0	0	0	0	0	0	0
\$104	\$108	21.50	10.20	0	0	0	0	0	0	0	0	0
\$108	\$112	22.30	11.00	0	0	0	0	0	0	0	0	0
\$112	\$116	23.10	11.80	.60	0	0	0	0	0	0	0	0
\$116	\$120	23.90	12.60	1.40	0	0	0	0	0	0	0	0
\$120	\$124	24.70	13.50	2.20	0	0	0	0	0	0	0	0
\$124	\$128	25.50	14.30	3.00	0	0	0	0	0	0	0	0
\$128	\$132	26.30	15.10	3.80	0	0	0	0	0	0	0	0
\$132	\$136	27.10	15.90	4.60	0	0	0	0	0	0	0	0
\$136	\$140	27.90	16.70	5.40	0	0	0	0	0	0	0	0
\$140	\$144	28.80	17.50	6.30	0	0	0	0	0	0	0	0
\$144	\$148	29.60	18.30	7.10	0	0	0	0	0	0	0	0
\$148	\$152	30.40	19.10	7.90	0	0	0	0	0	0	0	0
\$152	\$156	31.20	19.90	8.70	0	0	0	0	0	0	0	0
\$156	\$160	32.00	20.70	9.50	0	0	0	0	0	0	0	0
\$160	\$164	32.80	21.60	10.30	0	0	0	0	0	0	0	0
\$164	\$168	33.60	22.40	11.10	0	0	0	0	0	0	0	0
\$168	\$172	34.40	23.20	11.90	.70	0	0	0	0	0	0	0
\$172	\$176	35.20	24.00	12.70	1.50	0	0	0	0	0	0	0
\$176	\$180	36.00	24.80	13.50	2.30	0	0	0	0	0	0	0
\$180	\$184	36.90	25.60	14.40	3.10	0	0	0	0	0	0	0
\$184	\$188	37.70	26.40	15.20	3.90	0	0	0	0	0	0	0
\$188	\$192	38.50	27.20	16.00	4.70	0	0	0	0	0	0	0
\$192	\$196	39.30	28.00	16.80	5.50	0	0	0	0	0	0	0
\$196	\$200	40.10	28.80	17.60	6.30	0	0	0	0	0	0	0
\$200	\$204	40.90	29.70	18.40	7.20	0	0	0	0	0	0	0
\$204	\$208	41.70	30.50	19.20	8.00	0	0	0	0	0	0	0
\$208	\$212	42.50	31.30	20.00	8.80	0	0	0	0	0	0	0
\$212	\$216	43.30	32.10	20.80	9.60	0	0	0	0	0	0	0
\$216	\$220	44.10	32.90	21.60	10.40	0	0	0	0	0	0	0
\$220	\$224	45.00	33.70	22.50	11.20	0	0	0	0	0	0	0
\$224	\$228	45.80	34.50	23.30	12.00	.80	0	0	0	0	0	0
\$228	\$232	46.60	35.30	24.10	12.80	1.60	0	0	0	0	0	0
\$232	\$236	47.40	36.10	24.90	13.60	2.40	0	0	0	0	0	0
\$236	\$240	48.20	36.90	25.70	14.40	3.20	0	0	0	0	0	0
\$240	\$244	49.40	38.20	26.90	15.70	4.40	0	0	0	0	0	0
\$244	\$248	51.00	39.80	28.50	17.30	6.00	0	0	0	0	0	0
\$248	\$252	52.70	41.40	30.20	18.90	7.70	0	0	0	0	0	0
\$252	\$256	54.30	43.00	31.80	20.50	9.30	0	0	0	0	0	0
\$256	\$260	55.90	44.60	33.40	22.10	10.90	0	0	0	0	0	0
\$260	\$264	57.50	46.30	35.00	23.80	12.50	1.30	0	0	0	0	0
\$264	\$268	59.10	47.90	36.60	25.40	14.10	2.90	0	0	0	0	0
\$268	\$272	60.80	49.50	38.30	27.00	15.80	4.50	0	0	0	0	0
\$272	\$276	62.40	51.10	39.90	28.60	17.40	6.10	0	0	0	0	0
\$276	\$280	64.00	52.70	41.50	30.20	19.00	7.70	0	0	0	0	0
\$280	\$284	65.60	54.40	43.10	31.90	20.60	9.40	0	0	0	0	0
\$284	\$288	67.20	56.00	44.70	33.50	22.20	11.00	0	0	0	0	0
\$288	\$292	68.90	57.60	46.40	35.10	23.90	12.60	1.40	0	0	0	0
\$292	\$296	70.50	59.20	48.00	36.70	25.50	14.20	3.00	0	0	0	0
\$296	\$300	72.10	60.80	49.60	38.30	27.10	15.80	4.60	0	0	0	0
\$300	\$304	73.70	62.50	51.20	40.00	28.70	17.50	6.20	0	0	0	0
\$304	\$308	75.30	64.10	52.80	41.60	30.30	19.10	7.80	0	0	0	0
\$308	\$312	77.00	65.70	54.50	43.20	32.00	20.70	9.50	0	0	0	0
\$312	\$316	78.60	67.30	56.10	44.80	33.60	22.30	11.10	0	0	0	0
\$316	\$320	80.20	68.90	57.70	46.40	35.20	23.90	12.70	1.40	0	0	0
\$320	\$324	83.00	71.80	60.50	49.30	38.00	26.80	15.50	4.30	0	0	0
\$324	\$328	87.10	75.80	64.60	53.30	42.10	30.80	19.60	8.30	0	0	0
\$328	\$332	91.10	79.90	68.60	57.40	46.10	34.90	23.60	12.40	1.10	0	0
\$332	\$336	95.20	83.90	72.70	61.40	50.20	38.90	27.70	16.40	5.20	0	0
\$336	\$340	99.20	88.00	76.70	65.50	54.20	43.00	31.70	20.50	9.20	0	0
\$340	\$344	103.30	92.00	80.80	69.50	58.30	47.00	35.80	24.50	13.30	2.00	0
\$344	\$348	107.30	96.10	84.80	73.60	62.30	51.10	39.80	28.60	17.30	6.10	0
\$348	\$352	111.40	100.10	88.90	77.60	66.40	55.10	43.90	32.60	21.40	10.10	0
\$352	\$356	115.40	104.20	92.90	81.70	70.40	59.20	47.90	36.70	25.40	14.20	2.90
\$356	\$360	119.50	108.20	97.00	85.70	74.50	63.20	52.00	40.70	29.50	18.20	7.00
\$360	\$364	125.60	114.30	103.10	91.80	80.60	69.30	58.10	46.80	35.60	24.30	13.10
\$364	\$368	133.70	122.40	111.20	99.90	88.70	77.40	66.20	54.90	43.70	32.40	21.20
\$368	\$372	141.80	130.50	119.30	108.00	96.80	85.50	74.30	63.00	51.80	40.50	29.30
\$372	\$376	149.90	138.60	127.40	116.10	104.90	93.60	82.40	71.10	59.90	48.60	37.40
\$376	\$380	158.00	146.70	135.50	124.20	113.00	101.70	90.50	79.20	68.00	56.70	45.50
\$380	\$384	166.10	154.80	143.60	132.30	121.10	109.80	98.60	87.30	76.10	64.80	53.60
\$384	\$388	174.20	162.90	151.70	140.40	129.20	117.90	106.70	95.40	84.20	72.90	61.70
\$388	\$392	182.30	171.00	159.80	148.50	137.30	126.00	114.80	103.50	92.30	81.00	69.80
\$392	\$396	190.40	179.10	167.90	156.60	145.40	134.10	122.90	111.60	100.40	89.10	77.90
\$396	\$400	198.50	187.20	176.00	164.70	153.50	142.20	131.00	119.70	108.50	97.20	86.00
\$1,000 and over		20 percent of the excess over \$1,000 plus—										
		202.50	191.30	180.00	168.80	157.50	146.30	135.00	123.80	112.50	101.30	90.00

“If the payroll period with respect to an employee is a daily payroll period or a miscellaneous payroll period

And the wages di- vided by the num- ber of days in such period are—		And the number of withholding exemptions claimed is—										
		0	1	2	3	4	5	6	7	8	9	10 or more
At least	But less than	The amount of tax to be withheld shall be the following amount multiplied by the number of days in such period—										
\$0.....	\$2.00.....	20% of wages \$0.45	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
\$2.00.....	\$2.25.....	.05	.05	0	0	0	0	0	0	0	0	0
\$2.25.....	\$2.50.....	.10	.10	0	0	0	0	0	0	0	0	0
\$2.50.....	\$2.75.....	.15	.15	0	0	0	0	0	0	0	0	0
\$2.75.....	\$3.00.....	.20	.20	0	0	0	0	0	0	0	0	0
\$3.00.....	\$3.25.....	.25	.25	0	0	0	0	0	0	0	0	0
\$3.25.....	\$3.50.....	.30	.30	0	0	0	0	0	0	0	0	0
\$3.50.....	\$3.75.....	.35	.35	0	0	0	0	0	0	0	0	0
\$3.75.....	\$4.00.....	.40	.40	.05	0	0	0	0	0	0	0	0
\$4.00.....	\$4.25.....	.45	.45	.10	0	0	0	0	0	0	0	0
\$4.25.....	\$4.50.....	.50	.50	.15	0	0	0	0	0	0	0	0
\$4.50.....	\$4.75.....	.55	.55	.20	0	0	0	0	0	0	0	0
\$4.75.....	\$5.00.....	.60	.60	.25	0	0	0	0	0	0	0	0
\$5.00.....	\$5.25.....	.65	.65	.30	0	0	0	0	0	0	0	0
\$5.25.....	\$5.50.....	.70	.70	.35	0	0	0	0	0	0	0	0
\$5.50.....	\$5.75.....	.75	.75	.40	.05	0	0	0	0	0	0	0
\$5.75.....	\$6.00.....	.80	.80	.45	.10	0	0	0	0	0	0	0
\$6.00.....	\$6.25.....	.85	.85	.50	.15	0	0	0	0	0	0	0
\$6.25.....	\$6.50.....	.90	.90	.55	.20	0	0	0	0	0	0	0
\$6.50.....	\$6.75.....	.95	.95	.60	.25	0	0	0	0	0	0	0
\$6.75.....	\$7.00.....	1.00	1.00	.65	.30	0	0	0	0	0	0	0
\$7.00.....	\$7.25.....	1.05	1.05	.70	.35	0	0	0	0	0	0	0
\$7.25.....	\$7.50.....	1.10	1.10	.75	.40	0	0	0	0	0	0	0
\$7.50.....	\$7.75.....	1.15	1.15	.80	.45	.05	0	0	0	0	0	0
\$7.75.....	\$8.00.....	1.20	1.20	.85	.50	.10	0	0	0	0	0	0
\$8.00.....	\$8.25.....	1.25	1.25	.90	.55	.15	0	0	0	0	0	0
\$8.25.....	\$8.50.....	1.30	1.30	.95	.60	.20	0	0	0	0	0	0
\$8.50.....	\$8.75.....	1.35	1.35	1.00	.65	.25	0	0	0	0	0	0
\$8.75.....	\$9.00.....	1.40	1.40	1.05	.70	.30	0	0	0	0	0	0
\$9.00.....	\$9.25.....	1.45	1.45	1.10	.75	.35	0	0	0	0	0	0
\$9.25.....	\$9.50.....	1.50	1.50	1.15	.80	.40	.05	0	0	0	0	0
\$9.50.....	\$9.75.....	1.55	1.55	1.20	.85	.45	.10	0	0	0	0	0
\$9.75.....	\$10.00.....	1.60	1.60	1.25	.90	.50	.15	0	0	0	0	0
\$10.00.....	\$10.50.....	1.65	1.65	1.30	.95	.55	.20	0	0	0	0	0
\$10.50.....	\$11.00.....	1.70	1.70	1.35	1.00	.60	.25	0	0	0	0	0
\$11.00.....	\$11.50.....	1.75	1.75	1.40	1.05	.65	.30	0	0	0	0	0
\$11.50.....	\$12.00.....	1.80	1.80	1.45	1.10	.70	.35	0	0	0	0	0
\$12.00.....	\$12.50.....	1.85	1.85	1.50	1.15	.75	.40	.05	0	0	0	0
\$12.50.....	\$13.00.....	1.90	1.90	1.55	1.20	.80	.45	.10	0	0	0	0
\$13.00.....	\$13.50.....	1.95	1.95	1.60	1.25	.85	.50	.15	0	0	0	0
\$13.50.....	\$14.00.....	2.00	2.00	1.65	1.30	.90	.55	.20	0	0	0	0
\$14.00.....	\$14.50.....	2.05	2.05	1.70	1.35	1.00	.60	.25	0	0	0	0
\$14.50.....	\$15.00.....	2.10	2.10	1.75	1.40	1.05	.65	.30	0	0	0	0
\$15.00.....	\$15.50.....	2.15	2.15	1.80	1.45	1.10	.70	.35	0	0	0	0
\$15.50.....	\$16.00.....	2.20	2.20	1.85	1.50	1.15	.75	.40	.05	0	0	0
\$16.00.....	\$16.50.....	2.25	2.25	1.90	1.55	1.20	.80	.45	.10	0	0	0
\$16.50.....	\$17.00.....	2.30	2.30	1.95	1.60	1.25	.85	.50	.15	0	0	0
\$17.00.....	\$17.50.....	2.35	2.35	2.00	1.65	1.30	.90	.55	.20	0	0	0
\$17.50.....	\$18.00.....	2.40	2.40	2.05	1.70	1.35	.95	.60	.25	0	0	0
\$18.00.....	\$18.50.....	2.45	2.45	2.10	1.75	1.40	1.00	.65	.30	0	0	0
\$18.50.....	\$19.00.....	2.50	2.50	2.15	1.80	1.45	1.05	.70	.35	0	0	0
\$19.00.....	\$19.50.....	2.55	2.55	2.20	1.85	1.50	1.10	.75	.40	.05	0	0
\$19.50.....	\$20.00.....	2.60	2.60	2.25	1.90	1.55	1.15	.80	.45	.10	0	0
\$20.00.....	\$20.50.....	2.65	2.65	2.30	1.95	1.60	1.20	.85	.50	.15	0	0
\$20.50.....	\$21.00.....	2.70	2.70	2.35	2.00	1.65	1.25	.90	.55	.20	0	0
\$21.00.....	\$21.50.....	2.75	2.75	2.40	2.05	1.70	1.30	.95	.60	.25	0	0
\$21.50.....	\$22.00.....	2.80	2.80	2.45	2.10	1.75	1.35	1.00	.65	.30	0	0
\$22.00.....	\$22.50.....	2.85	2.85	2.45	2.10	1.75	1.35	1.00	.65	.30	0	0
\$22.50.....	\$23.00.....	2.90	2.90	2.50	2.15	1.80	1.40	1.05	.70	.35	0	0
\$23.00.....	\$23.50.....	2.95	2.95	2.55	2.20	1.85	1.45	1.10	.75	.40	.05	0
\$23.50.....	\$24.00.....	3.00	3.00	2.60	2.25	1.90	1.50	1.15	.80	.45	.10	0
\$24.00.....	\$24.50.....	3.05	3.05	2.65	2.30	1.95	1.55	1.20	.85	.50	.15	0
\$24.50.....	\$25.00.....	3.10	3.10	2.70	2.35	2.00	1.60	1.25	.90	.55	.20	0
\$25.00.....	\$25.50.....	3.15	3.15	2.75	2.40	2.05	1.65	1.30	.95	.60	.25	0
\$25.50.....	\$26.00.....	3.20	3.20	2.80	2.45	2.10	1.70	1.35	1.00	.65	.30	0
\$26.00.....	\$26.50.....	3.25	3.25	2.85	2.50	2.15	1.75	1.40	1.05	.70	.35	0
\$26.50.....	\$27.00.....	3.30	3.30	2.90	2.55	2.20	1.80	1.45	1.10	.75	.40	.05
\$27.00.....	\$27.50.....	3.35	3.35	2.95	2.60	2.25	1.85	1.50	1.10	.75	.40	.05
\$27.50.....	\$28.00.....	3.40	3.40	3.00	2.65	2.30	1.90	1.55	1.15	.80	.45	.10
\$28.00.....	\$28.50.....	3.45	3.45	3.05	2.70	2.35	1.95	1.60	1.20	.85	.50	.15
\$28.50.....	\$29.00.....	3.50	3.50	3.10	2.75	2.40	2.00	1.65	1.25	.90	.55	.20
\$29.00.....	\$29.50.....	3.55	3.55	3.15	2.80	2.45	2.05	1.70	1.30	.95	.60	.25
\$29.50.....	\$30.00.....	3.60	3.60	3.20	2.85	2.50	2.10	1.75	1.35	1.00	.65	.30
\$30 and over.....		20 percent of the excess over \$30 plus—										
		6.10	5.70	5.35	4.95	4.60	4.25	3.85	3.50	3.10	2.75	2.40"

1 **SEC. 223. ADDITIONAL WITHHOLDING OF TAX ON WAGES**
2 **UPON AGREEMENT BY EMPLOYER AND EM-**
3 **PLOYEE.**

4 Section 1622 (relating to income tax collected at source
5 on wages) is hereby amended by adding at the end thereof
6 the following new subsection:

7 “(k) **ADDITIONAL WITHHOLDING.**—The Secretary is
8 authorized by regulations to provide, under such conditions
9 and to such extent as he deems proper, for withholding in
10 addition to that otherwise required under this section in cases
11 in which the employer and the employee agree (in such
12 form as the Secretary may by regulations prescribe) to such
13 additional withholding. Such additional withholding shall
14 for all purposes be considered tax required to be deducted
15 and withheld under this subchapter.”

16 **SEC. 224. EFFECTIVE DATE.**

17 The amendments made by this part shall be applicable
18 only with respect to wages paid on or after September 1,
19 1951.

1 TITLE III—MISCELLANEOUS INCOME TAX
2 AMENDMENTS

3 SEC. 301. TAX TREATMENT IN CASE OF HEAD OF HOUSE-
4 HOLD.

5 (a) SURTAX IN CASE OF HEAD OF HOUSEHOLD.—Sec-
6 tion 12 (c) is hereby amended to read as follows:

7 “(c) HEAD OF HOUSEHOLD.—

8 “(1) RATES OF SURTAX.—In the case of taxable
9 years beginning after August 31, 1951, there shall be
10 levied, collected, and paid for each taxable year upon
11 the surtax net income of every individual who is the
12 head of a household the surtax shown in the following
13 table:

If the surtax net income is:	The surtax shall be:
Not over \$2,000-----	17% of the surtax net income.
Over \$2,000 but not over \$4,000---	\$340, plus 18% of excess over \$2,000.
Over \$4,000 but not over \$6,000---	\$700, plus 21% of excess over \$4,000.
Over \$6,000 but not over \$8,000---	\$1,120, plus 23% of excess over \$6,000.
Over \$8,000 but not over \$10,000--	\$1,580, plus 27% of excess over \$8,000.
Over \$10,000 but not over \$12,000-	\$2,120, plus 29% of excess over \$10,000.
Over \$12,000 but not over \$14,000-	\$2,700, plus 33% of excess over \$12,000.
Over \$14,000 but not over \$16,000-	\$3,360, plus 36% of excess over \$14,000.
Over \$16,000 but not over \$18,000-	\$4,080, plus 39% of excess over \$16,000.
Over \$18,000 but not over \$20,000-	\$4,860, plus 40% of excess over \$18,000.
Over \$20,000 but not over \$22,000-	\$5,660, plus 44% of excess over \$20,000.
Over \$22,000 but not over \$24,000-	\$6,540, plus 46% of excess over \$22,000.
Over \$24,000 but not over \$26,000-	\$7,460, plus 48% of excess over \$24,000.

If the surtax net income is:**The surtax shall be:**

Over \$26,000 but not over \$28,000_	\$8,420, plus 49% of excess over \$26,000.
Over \$28,000 but not over \$32,000_	\$9,400, plus 52% of excess over \$28,000.
Over \$32,000 but not over \$36,000_	\$11,480, plus 54% of excess over \$32,000.
Over \$36,000 but not over \$40,000_	\$13,640, plus 57% of excess over \$36,000.
Over \$40,000 but not over \$44,000_	\$15,920, plus 60% of excess over \$40,000.
Over \$44,000 but not over \$50,000_	\$18,320, plus 62% of excess over \$44,000.
Over \$50,000 but not over \$60,000_	\$22,040, plus 65% of excess over \$50,000.
Over \$60,000 but not over \$70,000_	\$28,540, plus 68% of excess over \$60,000.
Over \$70,000 but not over \$80,000_	\$35,340, plus 71% of excess over \$70,000.
Over \$80,000 but not over \$90,000_	\$42,440, plus 74% of excess over \$80,000.
Over \$90,000 but not over \$100,000.	\$49,840, plus 76% of excess over \$90,000.
Over \$100,000 but not over \$120,000.	\$57,440, plus 79% of excess over \$100,000.
Over \$120,000 but not over \$150,000.	\$73,240, plus 81% of excess over \$120,000.
Over \$150,000 but not over \$160,000.	\$97,540, plus 83% of excess over \$150,000.
Over \$160,000 but not over \$180,000.	\$105,840, plus 84% of excess over \$160,000.
Over \$180,000 but not over \$200,000.	\$122,640, plus 85% of excess over \$180,000.
Over \$200,000 but not over \$300,000.	\$139,640, plus 87% of excess over \$200,000.
Over \$300,000 -----	\$226,640, plus 88% of excess over \$300,000.

1 In the case of the head of a household whose surtax
2 net income for the taxable year is over \$90,000, this
3 paragraph shall not apply if the defense tax provided in
4 section 16 is applicable to such taxable year. For per-
5 centage increase in the amount of tax imposed by this
6 subsection, see section 16.

7 “(2) SURTAX NET INCOME OVER \$90,000.—In
8 the case of a taxable year beginning after August 31,

1 1951, to which the defense tax provided in section 16
 2 is applicable, if the surtax net income for the taxable
 3 year of an individual who is the head of a household
 4 is over \$90,000, there shall be levied, collected, and
 5 paid for such taxable year upon the surtax net income
 6 of such individual the surtax shown in the following
 7 table:

If the surtax net income is:				The surtax shall be:	
Over \$90,000	but not	over	\$100,000.	\$49,840, plus 75%	of excess over \$90,000.
Over \$100,000	but not	over	\$120,000.	\$57,340, plus 76%	of excess over \$100,000.
Over \$120,000	but not	over	\$140,000.	\$72,540, plus 78%	of excess over \$120,000.
Over \$140,000	but not	over	\$160,000.	\$88,140, plus 80%	of excess over \$140,000.
Over \$160,000	-----			\$104,140, plus 81%	of excess over \$160,000.

8 “(3) DEFINITION OF HEAD OF HOUSEHOLD.—For
 9 the purposes of this chapter, an individual shall be
 10 considered a head of a household if, and only if, such
 11 individual is not married at the close of his taxable year
 12 and maintains as his home a household which constitutes
 13 for such taxable year the principal place of abode, as a
 14 member of such household, of:

15 “(A) A son or daughter (including a stepson
 16 or stepdaughter) of the taxpayer, or a descendant
 17 of such son or daughter, but if such son, daughter,
 18 or descendant is married at the close of the tax-
 19 payer’s taxable year, only if the taxpayer is en-

1 titled to an exemption for the taxable year for such
2 person under section 25 (b) ; or

3 “(B) Any other person who is a dependent
4 of the taxpayer, if the taxpayer is entitled to an
5 exemption for the taxable year for such person
6 under section 25 (b) .

7 An individual shall be considered as maintaining a house-
8 hold only if over half of the cost of maintaining the
9 household during the taxable year is furnished by such
10 individual.

11 “(4) DETERMINATION OF STATUS.—For the pur-
12 poses of this subsection—

13 “(A) a legally adopted child of a person shall
14 be considered a child of such person by blood;

15 “(B) an individual who is legally separated
16 from his spouse under a decree of divorce or of
17 separate maintenance shall not be considered as
18 married;

19 “(C) a taxpayer shall be considered as not
20 married at the close of his taxable year if at any
21 time during the taxable year his spouse is a non-
22 resident alien; and

23 “(D) a taxpayer shall be considered as married
24 at the close of his taxable year if his spouse (other

1 than a spouse described in subparagraph (C)) died
2 during the taxable year.

3 “(5) NONRESIDENT ALIEN.—For the purposes of
4 this chapter a taxpayer shall in no case be considered
5 a head of a household if at any time during the taxable
6 year he is a nonresident alien.”

7 (b) EFFECTIVE DATE.—The amendment made by sub-
8 section (a) shall be applicable only with respect to taxable
9 years beginning after August 31, 1951.

10 SEC. 302. EXPENDITURES IN THE DEVELOPMENT OF
11 MINES.

12 (a) DEDUCTION OF EXPENDITURES.—Section 23 (a)
13 (1) (relating to deductions from gross income) is hereby
14 amended by adding at the end thereof the following new
15 subparagraph:

16 “(D) DEVELOPMENT OF MINES.—Expendi-
17 tures paid or incurred after December 31, 1950, in
18 the development of a mine or other natural deposit
19 (other than an oil or gas well), to the extent paid
20 or incurred after the existence of ores or minerals
21 in commercially marketable quantities has been
22 disclosed, shall be deductible, on a ratable basis, as
23 the units of produced ores or minerals benefited by
24 such expenditures are sold. Such expenditures, and
25 the adjustments to basis provided in section 113

(b) (1) (J), shall not be taken into account in determining the adjusted basis of the property for the purpose of computing depletion under section 114. This subparagraph shall not apply to expenditures for the acquisition or improvement of property of a character which is subject to the allowance for depreciation provided in section 23 (1). For purposes of this subparagraph, allowances for depreciation shall be considered as expenditures.”

(b) ADJUSTED BASIS FOR DETERMINING GAIN OR LOSS UPON SALE OR EXCHANGE.—Section 113 (b) (1) (relating to adjusted basis of property) is hereby amended by adding at the end thereof the following subparagraph:

“(J) for amounts allowed as deductions under section 23 (a) (1) (D) (relating to certain expenditures in the development of mines) and resulting in a reduction of the taxpayer’s taxes under this chapter, but not less than the amounts allowable under such section for the taxable year and prior years.”

(c) TECHNICAL AMENDMENT.—Section 24 (a) (2) (relating to items not deductible) is hereby amended by adding after the word “estate” the following: “, except expenditures for the development of mines or deposits deductible under section 23 (a) (1) (D)”.

1 (d) EFFECTIVE DATE.—The amendments made by this
 2 section shall be applicable to taxable years ending after
 3 December 31, 1950.

4 SEC. 303. GAIN FROM SALE OR EXCHANGE OF TAXPAYER'S
 5 RESIDENCE.

6 (a) NONRECOGNITION OF GAIN IN CERTAIN CASES.—
 7 Section 112 (relating to recognition of gain or loss) is hereby
 8 amended by adding at the end thereof the following new
 9 subsection:

10 “(n) GAIN FROM SALE OR EXCHANGE OF RESI-
 11 DENCE.—

12 “(1) NONRECOGNITION OF GAIN.—If property
 13 (hereinafter in this subsection called ‘old residence’)
 14 used by the taxpayer as his principal residence is sold
 15 by him and, within a period beginning one year prior
 16 to the date of such sale and ending one year after such
 17 date, property (hereinafter in this subsection called ‘new
 18 residence’) is purchased and used by the taxpayer as
 19 his principal residence, gain (if any) from such sale
 20 shall be recognized only to the extent that the taxpayer's
 21 selling price of the old residence exceeds the taxpayer's
 22 cost of purchasing the new residence.

23 “(2) RULES FOR APPLICATION OF SUBSECTION.—
 24 For the purposes of this subsection:

25 “(A) An exchange by the taxpayer of his

1 residence for other property shall be considered as
2 a sale of such residence, and the acquisition of a
3 residence upon the exchange of property shall be
4 considered as a purchase of such residence.

5 “(B) If the taxpayer’s residence (as a result
6 of its destruction in whole or in part, theft, or
7 seizure) is compulsorily or involuntarily converted
8 into property or into money, such destruction, theft,
9 or seizure shall be considered as a sale of the resi-
10 dence; and if the residence is so converted into
11 property which is used by the taxpayer as his resi-
12 dence, such conversion shall be considered as a
13 purchase of such property by the taxpayer.

14 “(C) In the case of an exchange or conversion
15 described in subparagraph (A) or (B), in deter-
16 mining the extent to which the selling price of the
17 old residence exceeds the taxpayer’s cost of purchas-
18 ing the new residence, the amount realized by the
19 taxpayer upon such exchange or conversion shall be
20 considered the selling price of the old residence.

21 “(D) A residence any part of which was con-
22 structed or reconstructed by the taxpayer shall be
23 considered as purchased by the taxpayer. In de-
24 termining the taxpayer’s cost of purchasing a resi-
25 dence, there shall be included only so much of his

1 cost as is attributable to the acquisition, construc-
2 tion, reconstruction, and improvements made which
3 are properly chargeable to capital account, during
4 the period specified in paragraph (1).

5 “(E) If a residence is purchased by the tax-
6 payer prior to the date of his sale of the old resi-
7 dence, the purchased residence shall not be
8 treated as his new residence if sold or otherwise
9 disposed of by him prior to the date of the sale of
10 the old residence.

11 “(F) If the taxpayer, during the period de-
12 scribed in paragraph (1), purchases more than one
13 residence which is used by him as his principal
14 residence at some time within one year after the date
15 of the sale of the old residence, only the last of such
16 residences so used by him after the date of such
17 sale shall constitute the new residence. If within
18 the one year referred to in the preceding sentence
19 property used by the taxpayer as his principal resi-
20 dence is destroyed, stolen, seized, requisitioned, or
21 condemned, or is sold or exchanged under threat
22 or imminence thereof, then for the purposes of
23 the preceding sentence such one year shall be con-

sidered as ending with the date of such destruction, theft, seizure, requisition, condemnation, sale, or exchange.

“(3) LIMITATION.—The provisions of paragraph (1) shall not be applicable with respect to the sale of the taxpayer’s residence if within one year prior to the date of such sale the taxpayer sold at a gain other property used by him as his principal residence, and any part of such gain was not recognized by reason of the provisions of paragraph (1). For the purposes of this paragraph, the destruction, theft, seizure, requisition, or condemnation of property or the sale or exchange of property under threat or imminence thereof, shall not be considered as a sale of such property.

“(4) BASIS OF NEW RESIDENCE.—Where the purchase of a new residence results, under paragraph (1), in the nonrecognition of gain upon the sale of an old residence, in determining the adjusted basis of the new residence as of any time following the sale of the old residence, the adjustments to basis shall include a reduction by an amount equal to the amount of the gain not so recognized upon the sale of the old residence. For this purpose, the amount of the gain not so recognized

1 upon the sale of the old residence includes only so much
 2 of such gain as is not recognized by reason of the cost,
 3 up to such time, of purchasing the new residence.

4 “(5) TENANT-STOCKHOLDER IN A COOPERATIVE
 5 APARTMENT CORPORATION.—For the purposes of this
 6 subsection, section 113 (b) (1) (K), and section 117
 7 (h) (7), references to property used by the taxpayer
 8 as his principal residence, and references to the residence
 9 of a taxpayer, shall include stock held by a tenant-
 10 stockholder (as defined in section 23 (z) (2)) in a
 11 cooperative apartment (as defined in such section) if—

12 “(A) in the case of stock sold, the apartment
 13 which the taxpayer was entitled to occupy as such
 14 stockholder was used by him as his principal resi-
 15 dence, and

16 “(B) in the case of stock purchased, the tax-
 17 payer used as his principal residence the apartment
 18 which he was entitled to occupy as such stockholder.

19 “(6) HUSBAND AND WIFE.—If the taxpayer and
 20 his spouse, in accordance with regulations which shall
 21 be prescribed by the Secretary pursuant to this para-
 22 graph, consent to the application of subparagraph (B)
 23 of this paragraph, then—

24 “(A) for the purposes of this subsection, the
 25 words ‘taxpayer’s selling price of the old residence’

1 shall mean the selling price (of the taxpayer, or
2 of the taxpayer and his spouse) of the old residence,
3 and the words 'taxpayer's cost of purchasing the
4 new residence' shall mean the cost (to the tax-
5 payer, his spouse, or both) of purchasing the new
6 residence (whether held by the taxpayer, his spouse,
7 or the taxpayer and his spouse) ; and

8 “(B) so much of the gain upon the sale of the
9 old residence as is not recognized solely by reason
10 of this paragraph, and so much of the adjustment
11 under paragraph (4) to the basis of the new resi-
12 dence as results solely from this paragraph, shall
13 be allocated between the taxpayer and his spouse as
14 provided in such regulations.

15 This paragraph shall apply only if the old residence and
16 the new residence are each used by the taxpayer and his
17 spouse as their principal residence. In case the tax-
18 payer and his spouse do not consent to the application
19 of subparagraph (B) of this paragraph, then the recog-
20 nition of gain upon the sale of the old residence shall be
21 determined under this subsection without regard to the
22 rules provided in this paragraph.

23 “(7) STATUTE OF LIMITATIONS.—If the taxpayer

1 during a taxable year sells at a gain property used by
 2 him as his principal residence, then—

3 “(A) the statutory period for the assessment
 4 of any deficiency attributable to any part of such
 5 gain shall not expire prior to the expiration of three
 6 years from the date the Secretary is notified by the
 7 taxpayer (in such manner as the Secretary may by
 8 regulations prescribe) of—

9 “(i) the taxpayer’s cost of purchasing the
 10 new residence which the taxpayer claims re-
 11 sults in nonrecognition of any part of such gain,

12 “(ii) the taxpayer’s intention not to pur-
 13 chase a new residence within the period speci-
 14 fied in paragraph (1), or

15 “(iii) a failure to make such purchase
 16 within such period; and

17 “(B) such deficiency may be assessed prior to
 18 the expiration of such three-year period notwith-
 19 standing the provisions of any other law or rule of
 20 law which would otherwise prevent such assess-
 21 ment.”

22 (b) TECHNICAL AMENDMENTS.—

23 (1) Section 112 (f) (relating to involuntary con-
 24 versions) is hereby amended by adding at the end
 25 thereof the following: “This subsection shall not apply,

1 in the case of property used by the taxpayer as his
2 principal residence, if the destruction, theft, seizure,
3 requisition, or condemnation of the residence, or the
4 sale or exchange of such residence under threat or
5 imminence thereof, occurred after December 31, 1950.”

6 (2) Section 113 (a) (9) (relating to basis of
7 property acquired as a result of involuntary conversions)
8 is hereby amended by adding at the end thereof the
9 following: “This paragraph shall not apply in respect
10 of property acquired as a result of a compulsory or
11 involuntary conversion of property used by the taxpayer
12 as his principal residence if the destruction, theft, seizure,
13 requisition, or condemnation of such residence, or the
14 sale or exchange of such residence under threat or
15 imminence thereof, occurred after December 31, 1950.”

16 (3) Section 113 (b) (1) (relating to adjusted
17 basis of property) is hereby amended by adding at the
18 end thereof the following new subparagraph:

19 “(K) in the case of a residence the acquisition
20 of which resulted, under the provisions of section
21 112 (n), in the nonrecognition of any part of the
22 gain realized upon the sale, exchange, or involun-
23 tary conversion of another residence, to the extent
24 provided in section 112 (n) (4).”

25 (4) Section 117 (h) (relating to determination of

1 holding period) is hereby amended by adding at the end
2 thereof the following new paragraph:

3 “(7) In determining the period for which the tax-
4 payer has held a residence, the acquisition of which
5 resulted under section 112 (n) in the nonrecognition of
6 any part of the gain realized on the sale, exchange, or
7 involuntary conversion of another residence, there shall
8 be included the period for which such other residence
9 had been held as of the date of such sale, exchange, or
10 involuntary conversion.”

11 (5) Section 276 (relating to period of limitation
12 upon assessment and collection) is hereby amended by
13 adding at the end thereof the following:

14 “(e) GAIN UPON SALE OR EXCHANGE OF RESI-
15 DENCE.—In the case of a deficiency described in section
16 112 (n) (7), such deficiency may be assessed at any time
17 prior to the expiration of the time therein provided.”

18 (c) EFFECTIVE DATE.—The amendments made by this
19 section shall be applicable to taxable years ending after
20 December 31, 1950, but the provisions of section 112 (n)
21 (1) and (6) of the Internal Revenue Code shall apply only
22 with respect to residences sold (within the meaning of such
23 section) after such date.

1 SEC. 304. PERCENTAGE DEPLETION.

2 (a) ALLOWANCE OF PERCENTAGE DEPLETION.—So
3 much of paragraph (4) of section 114 (b) as precedes the
4 last sentence of subparagraph (A) is hereby amended to
5 read as follows:

6 “(4) PERCENTAGE DEPLETION FOR COAL AND
7 METAL MINES AND FOR CERTAIN OTHER MINES AND
8 NATURAL MINERAL DEPOSITS.—

9 “(A) IN GENERAL.—The allowance for deple-
10 tion under section 23 (m) in the case of the follow-
11 ing mines and other natural deposits shall be—

12 “(i) in the case of asbestos, sand, gravel,
13 stone (including pumice, scoria, and slate),
14 brick and tile clay, shale, oyster shell, clam
15 shell, granite, and marble, 5 per centum,

16 “(ii) in the case of coal, 10 per centum,

17 “(iii) in the case of metal mines, bauxite,
18 fluorspar, flake graphite, vermiculite, beryl,
19 feldspar, mica, talc (including pyrophyllite),
20 lepidolite, spodumene, barite, ball and sagger
21 clay, china clay, phosphate rock, rock asphalt,
22 trona, bentonite, gilsonite, thenardite (includ-
23 ing thenardite from brines or mixtures of

1 brine), potash, borax, fuller's earth, tripoli, re-
 2 fractory and fire clay, quartzite, perlite, diato-
 3 maceous earth, metallurgical grade limestone,
 4 and chemical grade limestone, 15 per centum,
 5 and

6 “(iv) in the case of sulfur, 23 per centum,
 7 of the gross income from the property during the
 8 taxable year, excluding from such gross income an
 9 amount equal to any rents or royalties paid or
 10 incurred by the taxpayer in respect of the property.”

11 (b) TECHNICAL AMENDMENT.—So much of para-
 12 graph (2) of section 114 (b) as precedes “discovered by
 13 the taxpayer after February 28, 1913” is hereby amended
 14 to read as follows:

15 “(2) DISCOVERY VALUE IN THE CASE OF
 16 MINES.—In the case of mines (except mines in respect
 17 of which percentage depletion is allowable under para-
 18 graph (4) of this subsection) ”.

19 (c) EFFECTIVE DATE.—The amendments made by this
 20 section shall be applicable only with respect to taxable
 21 years beginning after December 31, 1950.

22 **SEC. 305. CAPITAL GAINS AND LOSSES.**

23 (a) TREATMENT OF LONG-TERM CAPITAL GAINS AND
 24 LOSSES.—

25 (1) AMENDMENT OF SECTION 23.—Section 23 (re-

1 relating to deductions from gross income) is hereby
2 amended by adding at the end thereof the following
3 new subsection:

4 “(cc) LONG-TERM CAPITAL GAINS.—In the case of
5 a taxpayer other than a corporation, the deduction for long-
6 term capital gains provided in section 117 (b).”

7 (2) AMENDMENT OF SECTION 117 (b).—Section
8 117 (b) (relating to treatment of long-term capital gains
9 and losses) is hereby amended to read as follows:

10 “(b) DEDUCTION FROM GROSS INCOME.—In the case
11 of a taxpayer other than a corporation, if for any taxable
12 year the net long-term capital gain exceeds the net short-
13 term capital loss, 50 per centum of the amount of such
14 excess shall be a deduction from gross income. In the case
15 of an estate or trust, the deduction shall be computed by
16 excluding the portion (if any), of the gains for the taxable
17 year from sales or exchanges of capital assets, which, under
18 section 162 (b) or (c), is includible by the income bene-
19 ficiaries as gain derived from the sale or exchange of capital
20 assets.”

21 (b) ALTERNATIVE TAX.—Section 117 (c) (2) (re-
22 lating to alternative tax) is hereby amended to read as
23 follows:

24 “(2) OTHER TAXPAYERS.—If for any taxable year
25 the net long-term capital gain of any taxpayer (other

than a corporation) exceeds the net short-term capital loss, there shall be levied, collected, and paid, in lieu of the tax imposed by sections 11 and 12 (or, in the case of certain tax-exempt trusts, in lieu of the tax imposed by section 421), a tax determined as follows, if and only if such tax is less than the tax imposed by such section:

“(A) A partial tax shall first be computed upon the net income reduced by an amount equal to 50 per centum of such excess, at the rates and in the manner as if this subsection had not been enacted.

“(B) There shall then be ascertained an amount equal to 25 per centum of the excess of the net long-term capital gain over the net short-term capital loss. In the case of taxable years to which the defense tax provided in section 16 (c) is applicable, such amount shall be increased by the percentage specified in such section.

“(C) The total tax shall be the partial tax computed under subparagraph (A) plus the amount computed under subparagraph (B).”

(c) TECHNICAL AMENDMENTS.—

(1) AMENDMENT OF SECTION 22 (n).—Section 22 (n) (relating to the definition of adjusted gross income)

1 is hereby amended by striking out the word "and" at
 2 the end of paragraph (5), by striking out the period
 3 at the end of paragraph (6) and inserting in lieu thereof
 4 "; and", and by inserting after paragraph (6) the fol-
 5 lowing new paragraph:

6 " (7) LONG-TERM CAPITAL GAINS.—The deduction
 7 allowed by section 23 (cc)."

8 (2) AMENDMENT OF SECTION 117 (a).—Paragraphs
 9 (2) and (4) of section 117 (a) (relating to definitions
 10 of short-term capital gain and long-term capital gain)
 11 are each hereby amended by striking out "net income"
 12 and inserting in lieu thereof "gross income".

13 (3) AMENDMENT OF SECTION 117 (j).—Section
 14 117 (j) (2) (A) (relating to gains and losses from
 15 involuntary conversion and from the sale or exchange
 16 of certain property used in the trade or business) is
 17 hereby amended to read as follows:

18 "(A) In determining under this paragraph
 19 whether gains exceed losses, the gains described
 20 therein shall be included only if and to the extent
 21 taken into account in computing gross income and
 22 the losses described therein shall be included only
 23 if and to the extent taken into account in computing
 24 net income, except that subsection (d) shall not
 25 apply."

1 (4) AMENDMENT OF SECTION 122 (d) (4).—Section
2 122 (d) (4) (relating to computation of net operating
3 loss deduction) is hereby amended to read as follows:

4 “(4) The amount deductible on account of losses
5 from sales or exchanges of capital assets shall not exceed
6 the amount includible on account of gains from such
7 sales or exchanges. The deduction provided in section
8 23 (cc) shall not be allowed.”

9 (5) AMENDMENT OF SECTION 162 (a).—Section
10 162 (a) (relating to computation of net income of
11 estates and trusts) is hereby amended by striking out
12 the semicolon and inserting in lieu thereof a period and
13 the following: “Where any amount of the income so
14 paid or set aside is attributable to gain from the sale
15 or exchange of capital assets held for more than six
16 months, proper adjustment of the deduction otherwise
17 allowable under this subsection shall be made for any
18 deduction allowable to the trust under section 23 (cc).”

19 (d) EFFECTIVE DATE.—The amendments made by this
20 section shall be applicable only with respect to taxable years
21 beginning on or after the date of the enactment of this Act.
22 In determining under section 117 (e) of the Internal Rev-
23 enue Code the amount of the carryover to a taxable year
24 beginning on or after such date, of the capital loss for a
25 taxable year beginning before such date, such amendments

1 shall not affect the computation of the amount of the net
2 capital loss or of the net capital gain for any taxable year
3 beginning before such date.

4 **SEC. 306. SALES OF LIVESTOCK.**

5 Effective with respect to taxable years beginning after
6 December 31, 1950, section 117 (j) (1) is hereby amended
7 by adding at the end thereof the following new sentence:
8 “Such term also includes livestock held by the taxpayer for
9 draft, breeding, or dairy purposes for 12 months or more.”

10 **SEC. 307. TAX TREATMENT OF COAL ROYALTIES.**

11 (a) **DEFINITION OF PROPERTY USED IN THE TRADE OR**
12 **BUSINESS.**—Section 117 (j) (1) (relating to the definition
13 of property used in the trade or business) is hereby amended
14 by adding after the word “timber” in the second sentence
15 thereof the following: “or coal”.

16 (b) **GAIN OR LOSS UPON CERTAIN DISPOSALS OF**
17 **TIMBER OR COAL.**—Section 117 (k) (2) (relating to the
18 disposal of timber) is hereby amended to read as follows:

19 “(2) In the case of the disposal of timber or coal
20 (held for more than 6 months prior to such disposal)
21 by the owner thereof under any form or type of contract
22 by virtue of which the owner retains an economic interest
23 in such timber or coal, the difference between the amount
24 received for such timber or coal and the adjusted deple-
25 tion basis thereof shall be considered as though it were

1 a gain or loss, as the case may be, upon the sale of such
 2 timber or coal. Such owner shall not be entitled to the
 3 allowance for percentage depletion provided for in sec-
 4 tion 114 (b) (4) with respect to such coal. In the
 5 case of coal, this paragraph shall not apply if such owner
 6 is personally obligated to pay a share of the cost of
 7 mining operations.”

8 (c) CLERICAL AMENDMENT.—The heading to section
 9 117 (k) (relating to the gain or loss upon the cutting of
 10 timber) is hereby amended to read as follows: “(k) GAIN
 11 OR LOSS IN THE CASE OF TIMBER OR COAL.—”.

12 (d) EFFECTIVE DATE.—The amendments made by this
 13 section shall be applicable only with respect to taxable years
 14 ending after December 31, 1950 (whether the disposal of
 15 the coal occurred on, before, or after such date), but shall
 16 apply only with respect to amounts received or accrued after
 17 such date.

18 SEC. 308. COLLAPSIBLE CORPORATIONS.

19 (a) Definitions with Respect to Collapsible Corpora-
 20 tions.—Section 117 (m) (2) (relating to definitions with
 21 respect to collapsible corporations) is hereby amended to
 22 read as follows:

23 “(2) DEFINITIONS.—

24 “(A) For the purposes of this subsection, the
 25 term ‘collapsible corporation’ means a corporation

1 formed or availed of principally for the manufacture,
 2 construction, or production of property, for the pur-
 3 chase of property which (in the hands of the cor-
 4 poration) is property described in subsection (a)
 5 (1) (A), or for the holding of stock in a corpora-
 6 tion so formed or availed of, with a view to—

7 “(i) the sale or exchange of stock by its
 8 shareholders (whether in liquidation or other-
 9 wise), or a distribution to its shareholders, prior
 10 to the realization by the corporation manufac-
 11 turing, constructing, producing, or purchasing
 12 the property of a substantial part of the net in-
 13 come to be derived from such property, and

14 “(ii) the realization by such shareholders
 15 of gain attributable to such property.

16 “(B) For the purposes of subparagraph (A),
 17 a corporation shall be deemed to have manufac-
 18 tured, constructed, produced, or purchased property,
 19 if—

20 “(i) it engaged in the manufacture, con-
 21 struction, or production of such property to any
 22 extent,

23 “(ii) it holds property having a basis de-
 24 termined, in whole or in part, by reference to
 25 the cost of such property in the hands of a per-

1 son who manufactured, constructed, produced,
2 or purchased the property, or

3 “(iii) it holds property having a basis
4 determined, in whole or in part, by reference to
5 the cost of property manufactured, constructed,
6 produced, or purchased by the corporation.”

7 (b) LIMITATIONS ON APPLICATION OF SECTION 117

8 (m).—Subparagraphs (A), (B), and (C) of section 117

9 (m) (3) (relating to the limitations on the application of
10 section 117 (m)) are hereby amended to read as follows:

11 “(A) this subsection shall not apply unless, at
12 any time after the commencement of the manufac-
13 ture, construction, or production of the property, or
14 at the time of the purchase of the property described
15 in subsection (a) (1) (A) or at any time there-
16 after, such shareholder (i) owned (or was con-
17 sidered as owning) more than 10 per centum
18 in value of the outstanding stock of the corporation,
19 or (ii) owned stock which was considered as owned
20 at such time by another shareholder who then owned
21 (or was considered as owning) more than 10 per
22 centum in value of the outstanding stock of the
23 corporation;

“(B) this subsection shall not apply to the gain recognized during a taxable year unless more than 70 per centum of such gain is attributable to the property so manufactured, constructed, produced, or purchased; and

“(C) this subsection shall not apply to gain realized after the expiration of three years following the completion of such manufacture, construction, production, or purchase.”

(c) EFFECTIVE DATE.—The amendment made by this section shall be applicable to taxable years beginning after December 31, 1950. The determination of the tax treatment of gains realized in taxable years beginning prior to January 1, 1951, shall be made as if this section had not been enacted and without inferences drawn from the fact that the amendment to section 117 (m) made by this section is not expressly made applicable to gains realized in taxable years beginning prior to such date and without inferences drawn from the limitations contained in section 117 (m), as amended by this section.

**SEC. 309. DEALERS IN SECURITIES—CAPITAL GAINS AND
ORDINARY LOSSES.**

Effective with respect to sales or exchanges made after the expiration of the thirtieth day after the date of the enact-

1 ment of this Act, section 117 is hereby amended by adding
2 at the end thereof the following new subsection:

3 “(n) DEALERS IN SECURITIES.—

4 “(1) CAPITAL GAINS.—Gain by a dealer in securi-
5 ties from the sale or exchange of any security shall in no
6 event be considered as gain from the sale or exchange
7 of a capital asset unless—

8 “(A) the security was, prior to the expiration
9 of the thirtieth day after the date of its acquisition or
10 after the date of the enactment of the Revenue Act
11 of 1951 (whichever is the later), clearly identified
12 in the dealer’s records as a security held for invest-
13 ment; and

14 “(B) the security was not, at any time after
15 the expiration of such thirtieth day, held by such
16 dealer primarily for sale to customers in the ordinary
17 course of his trade or business.

18 “(2) ORDINARY LOSSES.—Loss by a dealer in se-
19 curities from the sale or exchange of any security shall
20 in no event be considered as loss from the sale or ex-
21 change of property which is not a capital asset if at any
22 time after the thirtieth day following the date of the
23 enactment of the Revenue Act of 1951 the security was
24 clearly identified in the dealer’s records as a security
25 held for investment.

“ (3) DEFINITION OF SECURITY.—For the purposes of this subsection the term ‘security’ means any share of stock in any corporation, certificate of stock or interest in any corporation, note, bond, debenture, or evidence of indebtedness, or any evidence of an interest in or right to subscribe to or purchase any of the foregoing.”

SEC. 310. TREATMENT OF GAIN ON SALES OF CERTAIN PROPERTY BETWEEN SPOUSES AND BETWEEN AN INDIVIDUAL AND A CONTROLLED CORPORATION.

(a) DISALLOWANCE OF CAPITAL GAIN TREATMENT.—Section 117 (relating to capital gains and losses) is hereby amended by adding at the end thereof the following new subsection:

“(o) GAIN FROM SALE OF CERTAIN PROPERTY BETWEEN SPOUSES OR BETWEEN AN INDIVIDUAL AND A CONTROLLED CORPORATION.—

“(1) TREATMENT OF GAIN AS ORDINARY INCOME.—In the case of a sale or exchange, directly or indirectly, of property described in paragraph (2) —

“(A) between a husband and wife; or

“(B) between an individual and a corporation more than 50 per centum in value of the outstand-

1 ing stock of which is owned, directly or indirectly,
2 by or for such individual,
3 any gain recognized to the transferor from the sale or
4 exchange of such property shall be considered as gain
5 from the sale or exchange of property which is neither a
6 capital asset nor property described in subsection (j).

7 “(2) SUBSECTION APPLICABLE ONLY TO SALES OR
8 EXCHANGES OF DEPRECIABLE PROPERTY.—This subsec-
9 tion shall apply only in the case of a sale or exchange of
10 property by a transferor which in the hands of the trans-
11 feree is property of a character which is subject to the
12 allowance for depreciation provided in section 23 (l).

13 “(3) STOCK OWNERSHIP.—For the purposes of
14 determining, in applying paragraph (1) (B), the
15 ownership of stock—

16 “(A) stock owned, directly or indirectly, by or
17 for a corporation, partnership, estate, or trust, shall
18 be considered as being owned proportionately by or
19 for its shareholders, partners, or beneficiaries;

20 “(B) an individual shall be considered as own-
21 ing the stock owned, directly or indirectly, by or for
22 his spouse;

23 “(C) if an individual owns more than 10 per
24 centum in value of the outstanding stock of a cor-
25 poration (including stock considered as owned by

him under subparagraphs (A) and (B)), such individual shall be considered as owning the stock owned in such corporation, directly or indirectly, by or for his brothers and sisters (whether by the whole or the half blood), ancestors, and lineal descendants;

“(D) stock constructively owned by a person by reason of the application of subparagraph (A) shall, for the purpose of applying subparagraph (A), (B), or (C), be treated as actually owned by such person, but stock constructively owned by an individual by reason of the application of subparagraph (B) or (C) shall not be treated as owned by him for the purpose of applying either such subparagraph in order to make another the constructive owner of such stock.”

(b) **EFFECTIVE DATE.**—The amendment made by subsection (a) shall be applicable with respect to taxable years ending after April 30, 1951, but shall apply only with respect to sales or exchanges made after May 3, 1951.

SEC. 311. LIFE INSURANCE COMPANIES.

(a) **RESERVE AND OTHER POLICY LIABILITY CREDIT FOR 1951.**—So much of section 202 (b) (2) (relating to definition of reserve and other policy liability credit) as

1 precedes subparagraph (A) thereof is hereby amended to
2 read as follows:

3 “(2) SPECIAL RULE FOR 1949, 1950, AND 1951.—

4 In the case of the taxes imposed for a taxable year
5 beginning in 1949, 1950, or 1951, the figure to be used
6 for such year shall be computed as provided in paragraph
7 (1) except that—”.

8 (b) EFFECTIVE DATE.—The amendment made by
9 subsection (a) shall be applicable to taxable years beginning
10 in 1951.

11 **SEC. 312. TAX TREATMENT OF CERTAIN INVESTMENT COM-**
12 **PANIES.**

13 (a) INCLUSION OF CERTAIN REGISTERED MANAGE-
14 MENT COMPANIES IN THE DEFINITION OF REGULATED
15 INVESTMENT COMPANY.—Section 361 (relating to defini-
16 tion of regulated investment companies) is hereby amended
17 by adding at the end thereof the following new subsection:

18 “(c) CERTAIN INVESTMENT COMPANIES.—If the
19 Securities and Exchange Commission determines in accord-
20 ance with regulations issued by it, and certifies to the Secre-
21 tary not more than 60 days prior to the close of the taxable
22 year of a registered management company, that such invest-
23 ment company is principally engaged in the furnishing of
24 capital to other corporations which are principally engaged
25 in the development or exploitation of inventions, tech-

1 nological developments, new processes, or products not
2 previously generally available, such investment company
3 may, in the computation of 50 per centum of the value of
4 its assets under subparagraph (A) of subsection (b) (3)
5 for any quarter of such taxable year, include with respect
6 to any issuer securities which constitute more than 10 per
7 centum of the outstanding voting securities of such issuer if
8 the investment company has not continuously held any
9 security of such issuer (or of any predecessor company
10 of such issuer as determined under regulations prescribed
11 by the Secretary) for 10 or more years preceding such
12 quarter of such taxable year. The provisions of this sub-
13 section shall not apply at the close of any quarter of a tax-
14 able year to an investment company if at the close of such
15 quarter more than 25 per centum of the value of its total
16 assets is represented by securities of issuers with respect
17 to each of which the investment company holds more than
18 10 per centum of the outstanding voting securities of such
19 issuer and in respect of each of which or any predecessor
20 thereof the investment company has continuously held any
21 security for 10 or more years preceding such quarter unless
22 the value of its total assets so represented is reduced to
23 25 per centum or less within 30 days after the close of such
24 quarter. The terms used in this subsection shall have the
25 same meaning as in subsection (b) (3) of this section. For

1 the purposes of this subsection, a corporation shall be con-
 2 sidered to be principally engaged in the development or
 3 exploitation of inventions, technological improvements, new
 4 processes, or products not previously generally available, for
 5 at least 10 years after the date of the first acquisition of any
 6 security in such corporation or any predecessor thereof by
 7 such investment company if at the date of such acquisition
 8 the corporation or its predecessor was principally so en-
 9 gaged. For the purposes of the certification hereunder, the
 10 Securities and Exchange Commission shall have authority to
 11 issue such rules, regulations and orders, and to conduct such
 12 investigations and hearings, either public or private, as it
 13 may deem appropriate.”

14 (b) TECHNICAL AMENDMENT. Section 361 (b) (3)
 15 (A) is hereby amended by inserting after “the total assets
 16 of the taxpayer and” the following: “, except and to the
 17 extent provided in subsection (c),”.

18 (c) EFFECTIVE DATE.—The amendments made by this
 19 section shall be applicable only with respect to taxable years
 20 beginning after December 31, 1950.

21 **SEC. 313. FAMILY PARTNERSHIPS.**

22 (a) DEFINITION OF PARTNER.—Section 3797 (a) (2)
 23 is hereby amended by adding at the end thereof the follow-
 24 ing: “A person shall be recognized as a partner for income
 25 tax purposes if he owns a capital interest in a partnership in

1 which capital is a material income-producing factor, whether
2 or not such interest was derived by purchase or gift from
3 any other person.”

4 (b) ALLOCATION OF PARTNERSHIP INCOME.—Sup-
5 plement F of chapter 1 is hereby amended by adding at
6 the end thereof the following new section:

7 **“SEC. 191. FAMILY PARTNERSHIPS.**

8 “In the case of any partnership interest created by
9 gift, the distributive share of the donee under the partner-
10 ship agreement shall be includible in his gross income, except
11 to the extent that such share is determined without allow-
12 ance of reasonable compensation for services rendered to
13 the partnership by the donor, and except to the extent that
14 the portion of such share attributable to donated capital is
15 proportionately greater than the share of the donor attribut-
16 able to the donor’s capital. The distributive share of a part-
17 ner in the earnings of the partnership shall not be dimin-
18 ished because of absence due to military service. For the
19 purpose of this section, an interest purchased by one mem-
20 ber of a family from another shall be considered to be created
21 by gift from the seller, and the fair market value of the pur-
22 chased interest shall be considered to be donated capital.
23 The ‘family’ of any individual shall include only his spouse,
24 ancestors, and lineal descendants, and any trust for the
25 primary benefit of such persons.”

1 (c) **EFFECTIVE DATE.**—The amendments made by this
 2 section shall be applicable with respect to taxable years
 3 beginning after December 31, 1950. The determination
 4 as to whether a person shall be recognized as a partner for
 5 income tax purposes for any taxable year beginning before
 6 January 1, 1951 shall be made as if this section had not
 7 been enacted and without inferences drawn from the fact
 8 that this section is not expressly made applicable with
 9 respect to taxable years beginning before January 1, 1951.

10 **TITLE IV—EXCISE TAXES**

11 **Part I—Tax on Admissions and Cabarets**

12 **SEC. 401. REMOVAL OF TAX ON FREE ADMISSIONS.**

13 Section 1700 (a) (1) (relating to tax on single or
 14 season tickets) is hereby amended by striking out the
 15 second and fourth sentences thereof.

16 **SEC. 402. EXEMPTIONS FROM ADMISSIONS TAX.**

17 (a) **REINSTATEMENT OF PREWAR EXEMPTIONS.**—
 18 Notwithstanding section 541 (b) of the Revenue Act of
 19 1941, the provisions of section 1701 (relating to exemptions
 20 from the admissions tax) shall apply to amounts paid on
 21 or after the effective date specified in section 403 of this
 22 Act for admissions on or after such date.

23 (b) **AMENDMENT OF SECTION 1701 (a).**—Section
 24 1701 (a) (relating to religious, educational, or charitable
 25 entertainments) is hereby amended to read as follows:

1 “(a) RELIGIOUS, EDUCATIONAL, OR CHARITABLE
2 ENTERTAINMENTS, ETC.—

3 “(1) IN GENERAL.—Except as provided in para-
4 graph (2), any admissions all the proceeds of which
5 inure—

6 “(A) exclusively to the benefit of religious,
7 educational, or charitable institutions, societies, or
8 organizations, societies for the prevention of cruelty
9 to children or animals, or societies or organizations
10 conducted for the sole purpose of maintaining sym-
11 phony orchestras and receiving substantial support
12 from voluntary contributions or of maintaining a
13 cooperative or community center moving-picture
14 theatre—if no part of the net earnings thereof inures
15 to the benefit of any private stockholder or indi-
16 vidual;

17 “(B) exclusively to the benefit of National
18 Guard organizations, Reserve Officers’ associations
19 or organizations, posts or organizations of war vet-
20 erans, or auxiliary units or societies of any such posts
21 or organizations, if such posts, organizations, units,
22 or societies are organized in the United States or any
23 of its possessions, and if no part of their net earn-
24 ings inures to the benefit of any private stockholder
25 or individual; or

1 “(C) exclusively to the benefit of a police or
 2 fire department of any city, town, village, or other
 3 municipality, or exclusively to a fund for the sole
 4 benefit of members of such a police or fire depart-
 5 ment or the dependents or heirs of such members.

6 “(2) NONEXEMPT ADMISSIONS.—The exemption
 7 provided under paragraph (1) shall not apply in the
 8 case of admissions to (A) any athletic game or exhibi-
 9 tion unless the proceeds inure exclusively to the benefit
 10 of an elementary or secondary school, (B) wrestling
 11 matches, prize fights, or boxing, sparring, or other pugi-
 12 listic matches or exhibitions, or (C) carnivals, rodeos, or
 13 circuses in which any professional performer or operator
 14 participates for compensation.”

15 (c) ADMISSIONS TO MUNICIPAL SWIMMING POOLS,
 16 ETC.—Section 1701 is hereby amended by striking out the
 17 period at the end of subsection (c) and inserting in lieu
 18 thereof “; or” and by adding at the end of such section the
 19 following new subsection:

20 “(d) MUNICIPAL SWIMMING POOLS, ETC.—Any ad-
 21 missions to swimming pools, bathing beaches, skating rinks,
 22 or other places providing facilities for physical exercise, op-
 23 erated by any State or political subdivision thereof or by the
 24 United States or any agency or instrumentality thereof—if
 25 the proceeds therefrom inure exclusively to the benefit of

1 the State, political subdivision, United States, agency, or
2 instrumentality. For the purposes of this subsection the
3 term 'State' includes Alaska, Hawaii, and the District of
4 Columbia."

5 **SEC. 403. EFFECTIVE DATE OF AMENDMENTS RELATING**
6 **TO ADMISSIONS.**

7 The amendments made by sections 401 and 402 shall
8 be applicable with respect to amounts paid on or after the
9 first day of the first month which begins more than ten
10 days after the date of the enactment of this Act for admis-
11 sions on or after such date.

12 **SEC. 404. TAX ON CABARETS, ROOF GARDENS, ETC.**

13 (a) **BALLROOMS AND DANCE HALLS.**—Section 1700

14 (e) (1) (relating to tax on cabarets, roof gardens, etc.) is
15 hereby amended by inserting after the second sentence
16 thereof the following new sentence: "In no case shall such
17 term include any ballroom, dance hall, or other similar place
18 where the serving or selling of food, refreshment, or mer-
19 chandise is merely incidental, unless such place would be
20 considered, without the application of the preceding sentence,
21 as a 'roof garden, cabaret, or other similar place'."

22 (b) **EFFECTIVE DATE.**—The amendment made by
23 subsection (a) shall be applicable only with respect to
24 periods after 10 antemeridian on the first day of the first

1 month which begins more than ten days after the date of the
2 enactment of this Act.

3 **Part II—Tax on Cigarettes**

4 **SEC. 421. TAX ON CIGARETTES.**

5 (a) INCREASE IN RATE.—Section 2000 (c) (2)
6 (tax on cigarettes) is hereby amended by striking out
7 “\$3.50” and inserting in lieu thereof “\$4”.

8 (b) EFFECTIVE DATE.—The amendment made by sub-
9 section (a) shall take effect on the first day of the first
10 month which begins more than 10 days after the date of
11 the enactment of this Act.

12 **SEC. 422. FLOOR STOCKS TAX ON CIGARETTES.**

13 Section 2000 (relating to tax on tobacco, etc.) is hereby
14 amended by adding at the end thereof the following new
15 subsection:

16 “(f) 1951 FLOOR STOCKS TAX.—

17 “(1) TAX.—Upon cigarettes subject to tax under
18 this section weighing not more than three pounds per
19 thousand, which on the effective date of section 421
20 of the Revenue Act of 1951 are held by any person
21 for sale, there shall be levied, assessed, collected, and
22 paid a floor stocks tax at a rate equal to the increase
23 in rate of tax made applicable to such cigarettes by the
24 Revenue Act of 1951.

25 “(2) RETURNS.—Every person required by this

subsection to pay any floor stocks tax shall, on or before the end of the month next following the month in which section 421 (a) of the Revenue Act of 1951 takes effect, under such regulations as the Secretary shall prescribe, make a return and pay such tax, except that in the case of such cigarettes held by manufacturers and importers, the Secretary may collect the tax with respect to such cigarettes by means of stamps rather than return, and in such case may make an assessment against such manufacturer or importer having cigarette tax stamps on hand on the effective date of such section for the difference between the amount paid for such stamps and the increased rate imposed by such section.

“(3) LAWS APPLICABLE.—All provisions of law, including penalties, applicable in respect of the taxes imposed by section 2000, shall, insofar as applicable and not inconsistent with this subsection, be applicable with respect to the floor stocks tax imposed by this subsection.”

Part III—Retailers’ Excise Taxes

SEC. 431. TAX ON LIGHTERS.

Section 2400 (relating to retailers’ excise tax on jewelry, etc.) is hereby amended by striking out in the first sentence thereof the words “and binoculars.” and inserting in lieu

1 thereof the following: "binoculars; and mechanical lighters
2 for cigarettes, cigars, or pipes."

3 **SEC. 432. RETAILERS' EXCISE TAX ON TOILET PREPARA-**
4 **TIONS.**

5 (a) **BABY OILS, ETC.**—Section 2402 (a) is hereby
6 amended by adding at the end thereof the following new sen-
7 tence: "The tax imposed by this subsection shall not apply
8 to lotion, oil, powder, or other article intended to be used or
9 applied only in the care of babies."

10 (b) **SALES TO BARBER SHOPS, ETC.**—Section 2402
11 (b) is hereby amended to read as follows:

12 "(b) **BEAUTY PARLORS, ETC.**—For the purposes of
13 subsection (a), the sale of any article described in such sub-
14 section to any person operating a barbershop, beauty parlor,
15 or similar establishment for use in the operation thereof, or
16 for resale, shall not be considered as a sale at retail. The
17 resale of such article at retail by such person shall be subject
18 to the provisions of subsection (a)."

19 **SEC. 433. EFFECTIVE DATE OF PART III.**

20 The amendments made by this part shall apply only
21 to articles sold on or after the first day of the first month
22 which begins more than ten days after the date of the enact-
23 ment of this Act.

Part IV—Diesel Fuel**SEC. 441. DIESEL FUEL USED IN HIGHWAY VEHICLES.**

(a) IMPOSITION OF TAX.—The Internal Revenue Code is hereby amended by adding after chapter 19 the following new chapter:

“CHAPTER 20—DIESEL FUEL**“SEC. 2450. TAX ON DIESEL FUEL.**

“There is hereby imposed a tax of 2 cents a gallon upon any liquid (other than any product taxable under section 3412) —

“(1) sold by any person to an owner, lessee, or other operator of a diesel-powered highway vehicle, for use as a fuel in such vehicle, or

“(2) used by any person as a fuel in a diesel-powered highway vehicle unless there was a taxable sale of such liquid under clause (1).

“SEC. 2451. RETURNS AND PAYMENT.

“(a) REQUIREMENT.—Every person liable for tax under this chapter shall make returns and pay the taxes due to the collector for the district in which is located his principal place of business, or if he has no principal place of business in the United States, then to the collector at Baltimore, Maryland. Such returns shall contain such information and

1 be made at such times and in such manner as the Secretary
2 may by regulations prescribe.

3 “(b) INTEREST.—The tax shall, without assessment or
4 notice, be due and payable to the collector at the time pre-
5 scribed for filing the return. If the tax is not paid when
6 due, there shall be added as part of the tax interest at the
7 rate of 6 per centum per annum from the time when the
8 tax became due until paid.

9 “SEC. 2452. CREDITS AND REFUNDS.

10 “(a) NON-TAXABLE USE OR SALE BY VENDEE.—A
11 credit against tax under this chapter, or a refund, may be
12 allowed or made to a person in the amount of tax paid by
13 him under this chapter with respect to his sale of any liquid
14 to a vendee for use as fuel in a diesel-powered highway
15 vehicle, if such person establishes, in accordance with regu-
16 lations prescribed by the Secretary, that—

17 “(1) the vendee used such liquid otherwise than
18 as fuel in such a vehicle or resold such liquid, and

19 “(2) such person has repaid or agreed to repay
20 the amount of such tax to such vendee, or has obtained
21 the consent of the vendee to the allowance of the credit
22 or refund.

23 No interest shall be allowed with respect to any amount of
24 tax credited or refunded under the provisions of this sub-
25 section.

1 “(b) **PROOF REQUIRED IN CASE OF CERTAIN OVER-**
 2 **PAYMENTS.**—No overpayment of tax under this chapter
 3 shall be credited or refunded (otherwise than under sub-
 4 section (a)) in pursuance of a court decision or otherwise,
 5 unless the person who paid the tax establishes, in accord-
 6 ance with regulations prescribed by the Secretary, (1) that
 7 he has not included the tax in the price of the article with
 8 respect to which it was imposed, or collected the amount
 9 of tax from the vendee, or (2) that he has repaid the amount
 10 of the tax to the ultimate purchaser of the article, or files
 11 with the Secretary written consent of such ultimate pur-
 12 chaser to the allowance of the credit or refund.

13 **“SEC. 2453. TAX-FREE SALES.**

14 “Under regulations prescribed by the Secretary, no tax
 15 under this chapter shall be imposed with respect to the
 16 sale of any liquid for the exclusive use of any State, Terri-
 17 tory of the United States, or any political subdivision of the
 18 foregoing, or the District of Columbia, or with respect to
 19 the use by any of the foregoing of any liquid as fuel in a
 20 diesel-powered highway vehicle.

21 **“SEC. 2454. APPLICABILITY OF ADMINISTRATIVE PROVI-**
 22 **SIONS.**

23 “All provisions of law (including penalties) applicable
 24 in respect of the taxes imposed by section 2700 shall, inso-

1 far as applicable and not inconsistent with this chapter, be
2 applicable in respect of the taxes imposed by this chapter.

3 **"SEC. 2455. RULES AND REGULATIONS.**

4 "The Secretary shall prescribe and publish all needful rules
5 and regulations for the enforcement of this chapter."

6 (b) **EFFECTIVE DATE.**—The amendment made by sub-
7 section (a) shall take effect on the first day of the first
8 month which begins more than ten days after the date of
9 the enactment of this Act.

10 **Part V—Liquor**

11 **SEC. 451. INCREASE IN TAX ON DISTILLED SPIRITS FROM**
12 **\$9 TO \$10.50 PER GALLON.**

13 (a) **DISTILLED SPIRITS GENERALLY.**—Section 2800

14 (a) (1) is hereby amended by striking out "\$6" and in-
15 serting in lieu thereof "\$10.50".

16 (b) **IMPORTED PERFUMES CONTAINING DISTILLED**
17 **SPIRITS.**—Section 2800 (a) (3) is hereby amended by
18 striking out "\$6" and inserting in lieu thereof "\$10.50".

19 (c) **FLOOR STOCKS TAX.**—Section 2800 is amended
20 by inserting at the end thereof the following new subsection:

21 "(1) **1951 FLOOR STOCKS TAX.**—

22 "(1) **TAX.**—Upon all distilled spirits upon which
23 the internal revenue tax imposed by law has been paid,
24 and which on the effective date of section 451 (a) of
25 the Revenue Act of 1951, are held and intended for sale

1 or for use in the manufacture or production of any article
2 intended for sale, there shall be levied, assessed, col-
3 lected, and paid a floor stocks tax of \$1.50 on each proof-
4 gallon, and a proportionate tax at a like rate on all frac-
5 tional parts of such proof-gallon.

6 “(2) RETURNS.—Under such regulations as the
7 Secretary shall prescribe, every person required by
8 paragraph (1) to pay any floor stocks tax shall, on or
9 before the end of the thirtieth day following the effective
10 date of section 451 (a) of the Revenue Act of 1951
11 make a return and shall, on or before the first day of
12 the third month following such effective date, pay such
13 tax. Payment of the tax shown to be due may be ex-
14 tended to a date not later than the first day of the tenth
15 month following the effective date of such section upon
16 the filing of a bond for payment thereof in such form
17 and amount and with such surety or sureties as the
18 Secretary may prescribe.

19 “(3) LAWS APPLICABLE.—All provisions of law,
20 including penalties, applicable in respect of internal
21 revenue taxes on distilled spirits shall, insofar as appli-
22 cable and not inconsistent with this subsection, be appli-
23 cable in respect of the floor stocks tax imposed here-
24 under. For the purposes of this subsection the term
25 ‘distilled spirits’ shall include products produced in such

1 manner that the person producing them is a rectifier
2 within the meaning of section 3254 (g).”

3 **SEC. 452. WINES.**

4 (a) **INCREASE IN RATE OF TAX.—**

5 (1) **STILL WINES.**—So much of section 3030 (a)

6 (1) (A) (tax on still wines, etc.) as precedes the sec-
7 ond sentence thereof is hereby amended to read as
8 follows:

9 “(A) **Imposition.**—Upon all still wines, in-
10 cluding vermouth, and all artificial or imitation
11 wines or compounds sold as still wine, produced in
12 or imported into the United States on or after the
13 effective date of section 452 (a) of the Revenue
14 Act of 1951, or which on such date were on any
15 winery premises or other bonded premises or in
16 transit thereto or at any custom house, there shall
17 be levied, collected, and paid taxes at rates as fol-
18 lows, when sold, or removed for consumption or
19 sale:

20 “On wines containing not more than 14 per
21 centum of absolute alcohol, 17 cents per wine-
22 gallon, the per centum of alcohol under this section
23 to be reckoned by volume and not by weight;

“On wines containing more than 14 per centum and not exceeding 21 per centum of absolute alcohol, 67 cents per wine-gallon;

“On wines containing more than 21 per centum and not exceeding 24 per centum of absolute alcohol, \$2.25 per wine-gallon;

“All such wines containing more than 24 per centum of absolute alcohol by volume shall be classed as distilled spirits and shall pay tax accordingly.”

(2) SPARKLING WINES, LIQUEURS, AND CORDIALS.—Section 3030 (a) (2) (tax on sparkling wines, liqueurs, and cordials) is hereby amended as follows:

(A) By striking out “after June 30, 1940, or which on July 1, 1940” and inserting in lieu thereof “on or after the effective date of section 452 (a) of the Revenue Act of 1951, or which on such date”;

(B) By striking out “10 cents” and inserting in lieu thereof “17 cents”; and

(C) By striking out “5 cents” each place it occurs and inserting in lieu thereof “12 cents”.

(b) FLOOR STOCKS.—Subchapter F of chapter 26 is hereby amended by inserting at the end thereof the following new section:

1 **"SEC. 3195. 1951 FLOOR STOCKS TAX ON WINES.**

2 “(a) Upon all wines upon which the internal revenue
3 tax imposed by law has been paid, and which on the effective
4 date of section 452 (a) of the Revenue Act of 1951 are held
5 and intended for sale or for use in the manufacture or pro-
6 duction of an article intended for sale, there shall be levied,
7 assessed, collected, and paid a floor stocks tax at rates equal
8 to the increases in rates of tax made applicable to such articles
9 by section 452 (a) of the Revenue Act of 1951.

10 “(b) RETURNS.—Under such regulations as the Secre-
11 tary shall prescribe, every person required by subsection (a)
12 to pay any floor stocks tax shall, on or before the end of the
13 thirtieth day following the effective date of section 452 (a)
14 of the Revenue Act of 1951 make a return and shall, on or
15 before the first day of the third month following such effec-
16 tive date, pay such tax. Payment of the tax shown to be due
17 may be extended to a date not later than the first day of the
18 tenth month following the effective date of section 452 (a)
19 of the Revenue Act of 1951, upon the filing of a bond for
20 payment thereof in such form and amount and with such
21 surety or sureties as the Secretary may prescribe.

22 “(c) LAWS APPLICABLE.—All provisions of law, in-
23 cluding penalties, applicable in respect of the taxes imposed
24 by section 3030 (a) shall, insofar as applicable and not in-

1 consistent with this section, be applicable with respect to the
2 floor stocks tax imposed by subsection (a).”

3 **SEC. 453. FERMENTED MALT LIQUOR.**

4 (a) **INCREASE IN TAX ON FERMENTED MALT LIQUORS**
5 **FROM \$8 TO \$9 PER BARREL.**—Section 3150 (a) (tax
6 on fermented malt liquors) is hereby amended (1) by strik-
7 ing out “\$7” and inserting in lieu thereof “\$9”, and (2)
8 by striking out the second sentence thereof.

9 (b) **FLOOR STOCKS TAX.**—Section 3150 is hereby
10 amended by inserting at the end thereof the following new
11 subsection:

12 “(g) **1951 FLOOR STOCKS TAX.**—

13 “(1) **TAX.**—Upon all fermented malt liquors upon
14 which the internal revenue tax imposed by law has been
15 paid, and which on the effective date of section 453 (a)
16 of the Revenue Act of 1951 are held by any person and
17 intended for sale there shall be levied, assessed, collected,
18 and paid a floor stocks tax at a rate of \$1 per barrel of
19 31 gallons.

20 “(2) **RETURNS.**—Under such regulations as the
21 Secretary shall prescribe, every person required by para-
22 graph (1) to pay any floor stocks tax shall, on or before
23 the end of the thirtieth day following the effective date
24 of section 453 (a) of the Revenue Act of 1951 make a

return and shall, on or before the first day of the third month following such effective date, pay such tax. Payment of the tax shown to be due may be extended to a date not later than the first day of the tenth month following the effective date of section 453 (a) of the Revenue Act of 1951, upon the filing of a bond for payment thereof in such form and amount and with such surety or sureties as the Secretary may prescribe.

“(3) LAWS APPLICABLE.—All provisions of law, including penalties, applicable in respect of the taxes imposed by subsection (a) shall, insofar as applicable and not inconsistent with this subsection, be applicable with respect to the floor stocks tax imposed by this subsection.”

SEC. 454. CLERICAL AMENDMENT.

The table contained in section 1650 (relating to the war tax rates of certain miscellaneous taxes) is hereby amended by striking out the following:

2800 (a) (1).....	Distilled Spirits.....	\$6 per gallon.....	\$9 per gallon.
2800 (a) (3).....	Imported Perfumes Containing Distilled Spirits.	\$6 per gallon.....	\$9 per gallon.
3030 (a) (1).....	Still Wines:		
	(1) Not over 14% of Alcohol...	10 cents per gallon.....	15 cents per gallon.
	(2) Over 14% and not over 21% of Alcohol.	40 cents per gallon.....	60 cents per gallon.
	(3) Over 21% and not over 24% of Alcohol.	\$1 per gallon.....	\$2 per gallon.
3030 (a) (2).....	Sparkling Wines, Liqueurs, and Cordials:		
	(1) Champagne or Sparkling Wine.	10 cents per half-pint or fraction thereof.	15 cents per half-pint or fraction thereof.
	(2) Artificially Carbonated Wine.	5 cents per half-pint or fraction thereof.	10 cents per half-pint or fraction thereof.
	(3) Liqueurs, Cordials, Etc...	5 cents per half-pint or fraction thereof.	10 cents per half-pint or fraction thereof.
3150.....	Fermented Malt Liquors.....	\$7 per barrel.....	\$8 per barrel.”

1 **SEC. 455. EFFECTIVE DATE OF PART V.**

2 The amendments made by this part shall take effect on
3 the first day of the first month which begins more than
4 10 days after the date of the enactment of this Act.

5 **Part VI—Occupational Taxes**

6 **SEC. 461. DEALERS IN LIQUORS.**

7 (a) **WHOLESALE DEALERS IN LIQUORS.**—Section
8 3250 (a) (1) (relating to occupational tax on wholesale
9 dealers in liquors) is hereby amended by striking out “\$110”
10 and inserting in lieu thereof “\$200”.

11 (b) **RETAIL DEALERS IN LIQUORS.**—Section 3250
12 (b) (1) (relating to occupational tax on retail dealers in
13 liquors) is hereby amended by striking out “\$27.50” and
14 inserting in lieu thereof “\$50”.

15 (c) **WHOLESALE DEALERS IN MALT LIQUORS.**—Sec-
16 tion 3250 (d) (1) (relating to tax on wholesale dealers in
17 malt liquors) is hereby amended by striking out “\$55” and
18 inserting in lieu thereof “\$100”.

19 **SEC. 462. DRAWBACK IN THE CASE OF DISTILLED SPIRITS**
20 **USED IN THE MANUFACTURE OF CERTAIN NON-**
21 **BEVERAGE PRODUCTS.**

22 (a) **DRAWBACK.**—Section 3250 (1) (5) (relating to
23 manufacture of certain nonbeverage products) is hereby
24 amended by striking out “\$3.75” and inserting in lieu
25 thereof “\$9.50”.

1 (b) **EFFECTIVE DATE.**—The amendment made by sub-
 2 section (a) shall be applicable only with respect to distilled
 3 spirits used on or after the first day of the first month which
 4 begins more than ten days after the date of the enactment
 5 of this Act, and on which the internal revenue tax was paid
 6 at the rate of \$10.50 specified in section 2800 (a) (1) or
 7 at a rate equivalent to such rate.

8 (c) **TECHNICAL AMENDMENT.**—Section 309 (c) of the
 9 Revenue Act of 1943 is hereby amended by adding at the
 10 end thereof the following: “Subsection (b) shall not be
 11 applicable in any case in which drawback is allowed at the
 12 rate of \$9.50 under section 3250 (1) (5) of the Internal
 13 Revenue Code, as amended by the Revenue Act of 1951.”

14 **SEC. 463. TAX ON COIN-OPERATED GAMING DEVICES.**

15 Section 3267 (a) (tax on coin-operated gaming de-
 16 vices) is hereby amended by striking out “\$150” wherever
 17 appearing therein and inserting in lieu thereof “\$250”.

18 **SEC. 464. TAX ON BOWLING ALLEYS AND BILLIARD AND**
 19 **POOL TABLES.**

20 (a) **INCREASE IN RATE.**—Section 3268 (relating to
 21 rate of tax) is hereby amended by striking out “\$10” and
 22 inserting in lieu thereof “\$25”.

1 (b) CLERICAL AMENDMENT.—The table contained in
 2 section 1650 (relating to the war tax rates of certain mis-
 3 cellaneous taxes) is hereby amended by striking out the
 4 following:

"3268-----| Billiard and Pool Tables; and | \$10 per year per table; | \$20 per year per table; \$20
 Bowling Alleys. | \$10 per year per alley. | per year per alley."

5 **SEC. 465. EFFECTIVE DATE OF PART VI.**

6 The amendments made by sections 461, 463, and 464
 7 shall take effect on the first day of the first month which
 8 begins more than ten days after the date of the enactment
 9 of this Act. In the case of the year beginning July 1, 1951,
 10 where the trade or business on which the tax is imposed
 11 was commenced prior to the first day of the month specified
 12 in the preceding sentence, the increase in tax resulting from
 13 such amendments shall be reckoned proportionately from
 14 the first day of such month to and including the thirtieth
 15 day of June following and shall be due on, and payable on
 16 or before, the last day of the month specified in the preced-
 17 ing sentence.

18 **Part VII—Wagering**

19 **SEC. 471. WAGERING TAXES.**

20 (a) IMPOSITION OF TAXES.—Subtitle B (relating to
 21 miscellaneous taxes) is hereby amended by inserting after
 22 chapter 27 the following new chapter:

1 **“CHAPTER 27A—WAGERING TAXES**

2 **“Subchapter A—Tax on Wagers**

3 **“SEC. 3285. TAX.**

4 “(a) **WAGERS.**—There shall be imposed on wagers, as
5 defined in subsection (b), an excise tax equal to 10 per
6 centum of the amount thereof.

7 “(b) **DEFINITIONS.**—For the purposes of this chapter—

8 “(1) The term ‘wager’ means (A) any wager
9 with respect to a sports event or a contest placed with a
10 person engaged in the business of accepting such wagers,
11 (B) any wager placed in a wagering pool with respect
12 to a sports event or a contest, if such pool is conducted
13 for profit, and (C) any wager placed in a lottery con-
14 ducted for profit.

15 “(2) The term ‘lottery’ includes the numbers game,
16 policy, and similar types of wagering. The term does
17 not include (A) any game of a type in which usually
18 (i) the wagers are placed, (ii) the winners are deter-
19 mined, and (iii) the distribution of prizes or other
20 property is made, in the presence of all persons placing
21 wagers in such game, and (B) any drawing conducted
22 by an organization exempt from tax under section 101, if
23 no part of the net proceeds derived from such drawing
24 inures to the benefit of any private shareholder or
25 individual.

1 “(c) AMOUNT OF WAGER.—In determining the amount
2 of any wager for the purposes of this subchapter, all charges
3 incident to the placing of such wager shall be included;
4 except that if the taxpayer establishes, in accordance with
5 regulations prescribed by the Secretary, that an amount
6 equal to the tax imposed by this subchapter has been col-
7 lected as a separate charge from the person placing such
8 wager, the amount so collected shall be excluded.

9 “(d) PERSONS LIABLE FOR TAX.—Each person who is
10 engaged in the business of accepting wagers shall be liable
11 for and shall pay the tax under this subchapter on all wagers
12 placed with him. Each person who conducts any wagering
13 pool or lottery shall be liable for and shall pay the tax under
14 this subchapter on all wagers placed in such pool or lottery.

15 “(e) EXCLUSIONS FROM TAX.—No tax shall be im-
16 posed by this subchapter (1) on any wager placed with,
17 or on any wager placed in a wagering pool conducted by, a
18 parimutuel wagering enterprise licensed under State law,
19 and (2) on any wager placed in a coin-operated device with
20 respect to which an occupational tax is imposed by section
21 3267.

22 “(f) TERRITORIAL EXTENT.—The tax imposed by this
23 subchapter shall apply only to wagers (1) accepted in the
24 United States, or (2) placed by a person who is in the
25 United States (A) with a person who is a citizen or resident

1 of the United States, or (B) in a wagering pool or lottery
2 conducted by a person who is a citizen or resident of the
3 United States.

4 **"SEC. 3286. CREDITS AND REFUNDS.**

5 “(a) No overpayment of tax under this subchapter shall
6 be credited or refunded (otherwise than under subsection
7 (b)), in pursuance of a court decision or otherwise, unless
8 the person who paid the tax establishes, in accordance with
9 regulations prescribed by the Secretary, (1) that he has
10 not collected (whether as a separate charge or otherwise)
11 the amount of the tax from the person who placed the wager
12 on which the tax was imposed, or (2) that he has repaid the
13 amount of the tax to the person who placed such wager,
14 or unless he files with the Secretary written consent of the
15 person who placed such wager to the allowance of the credit
16 or the making of the refund. In the case of any laid-off
17 wager, no overpayment of tax under this subchapter shall
18 be so credited or refunded to the person with whom such
19 laid-off wager was placed unless he establishes, in accord-
20 ance with regulations prescribed by the Secretary, that the
21 provisions of the preceding sentence have been complied
22 with both with respect to the person who placed the laid-off
23 wager with him and with respect to the person who placed
24 the original wager.

25 “(b) Where any taxpayer lays off part or all of a wager

1 with another person who is liable for tax under this sub-
2 chapter on the amount so laid off, a credit against the tax
3 imposed by this subchapter shall be allowed, or a refund
4 shall be made to, the taxpayer laying off such amount. Such
5 credit or refund shall be in an amount which bears the same
6 ratio to the amount of tax which such taxpayer paid under
7 this subchapter on the original wager as the amount so laid
8 off bears to the amount of the original wager. Credit or
9 refund under this subsection shall be allowed or made only
10 in accordance with regulations prescribed by the Secretary;
11 and no interest shall be allowed with respect to any amount
12 so credited or refunded.

13 **"SEC. 3287. CERTAIN PROVISIONS MADE APPLICABLE.**

14 "All provisions of law, including penalties, applicable
15 with respect to any tax imposed by section 2700 shall,
16 insofar as applicable and not inconsistent with the provisions
17 of this subchapter, be applicable with respect to the tax
18 imposed by this subchapter. In addition to all other records
19 required pursuant to section 2709, each person liable for tax
20 under this subchapter shall keep a daily record showing the
21 gross amount of all wagers on which he is so liable.

22 **"Subchapter B—Occupational Tax**

23 **"SEC. 3290. TAX.**

24 "A special tax of \$50 per year shall be paid by each
25 person who is liable for tax under subchapter A or who is en-

1 gaged in receiving wagers for or on behalf of any person
2 so liable.

3 **"SEC. 3291. REGISTRATION.**

4 “(a) Each person required to pay a special tax under
5 this subchapter shall register with the collector of the
6 district—

7 “(1) his name and place of residence:

8 “(2) if he is liable for tax under subchapter A, each
9 place of business where the activity which makes him so
10 liable is carried on, and the name and place of resi-
11 dence of each person who is engaged in receiving wagers
12 for him or on his behalf; and

13 “(3) if he is engaged in receiving wagers for or on
14 behalf of any person liable for tax under subchapter
15 A, the name and place of residence of each such person.

16 “(b) Where subsection (a) requires the name and
17 place of residence of a firm or company to be registered,
18 the names and places of residence of the several persons
19 constituting the firm or company shall be registered.

20 “(c) In accordance with regulations prescribed by the
21 Secretary, the collector may require from time to time such
22 supplemental information from any person required to regis-
23 ter under this section as may be needful to the enforcement
24 of this chapter.

1 **“SEC. 3292. CERTAIN PROVISIONS MADE APPLICABLE.**

2 “Sections 3271, 3273 (a), 3275, 3276, 3277, 3279, and
3 3280 shall extend to and apply to the special tax imposed
4 by this subchapter and to the persons upon whom it is
5 imposed, and for that purpose any activity which makes a
6 person liable for special tax under this subchapter shall be
7 considered to be a business or occupation described in chap-
8 ter 27. No other provision of subchapter B of chapter 27
9 shall so extend or apply.

10 **“SEC. 3293. POSTING.**

11 “Every person liable for special tax under this sub-
12 chapter shall place and keep conspicuously in his principal
13 place of business the stamp denoting the payment of such
14 special tax; except that if he has no such place of business,
15 he shall keep such stamp on his person, and exhibit it, upon
16 request, to any officer or employee of the Bureau of Internal
17 Revenue.

18 **“SEC. 3294. PENALTIES.**

19 “(a) **FAILURE TO PAY TAX.**—Any person who does
20 any act which makes him liable for special tax under this
21 subchapter, without having paid such tax, shall, besides be-
22 ing liable to the payment of the tax, be fined not less than
23 \$1,000 and not more than \$5,000.

1 “(b) FAILURE TO POST OR EXHIBIT STAMP.—Any
 2 person who, through negligence, fails to comply with section
 3 3293, shall be liable to a penalty of \$50, and the cost of
 4 prosecution. Any person who, through willful neglect or
 5 refusal, fails to comply with section 3293, shall be liable to a
 6 penalty of \$100, and the cost of prosecution.

7 “(c) WILLFUL VIOLATIONS.—The penalties prescribed
 8 by section 2707 with respect to the tax imposed by section
 9 2700 shall apply with respect to the tax imposed by this
 10 subchapter.

11 “Subchapter C—Miscellaneous Provisions

12 “SEC. 3297. APPLICABILITY OF FEDERAL AND STATE LAWS.

13 “The payment of any tax imposed by this chapter with
 14 respect to any activity shall not exempt any person from any
 15 penalty provided by a law of the United States or of any
 16 State for engaging in the same activity, nor shall the payment
 17 of any such tax prohibit any State from placing a tax on the
 18 same activity for State or other purposes.

19 “SEC. 3298. INSPECTION OF BOOKS.

20 “Notwithstanding section 3631, the books of account of
 21 any person liable for tax under this chapter may be examined
 22 and inspected as frequently as may be needful to the en-
 23 forcement of this chapter.”

24 (b) TECHNICAL AMENDMENT.—Section 3310 (f)
 25 (relating to discretion allowed the Commissioner with re-

spect to returns and payment of tax) is hereby amended by inserting after "subchapter A of chapter 25," the following: "subchapter A of chapter 27A,".

SEC. 472. EFFECTIVE DATE OF PART VII.

The tax imposed by subchapter A of chapter 27A, as added by section 471, shall apply only with respect to wagers placed on or after the first day of the first month which begins more than 10 days after the date of enactment of this Act. No tax shall be payable under subchapter B of chapter 27A, as added by section 471, with respect to any period prior to the first day of the first month which begins more than 10 days after the date of enactment of this Act.

Part VIII—Manufacturers' Excise Taxes

SEC. 481. AUTOMOBILES, TRUCKS, AND PARTS OR ACCESSORIES.

(a) INCREASE IN TAX ON TRUCKS.—Section 3403

(a) (tax on trucks, busses, etc.) is hereby amended by striking out "5 per centum" and inserting in lieu thereof "8 per centum".

(b) INCREASE IN TAX ON PASSENGER AUTOMOBILES AND MOTORCYCLES.—Section 3403 (b) (tax on automobile chassis and bodies, etc.) is hereby amended to read as follows:

"(b) OTHER CHASSIS AND BODIES, ETC.—

"(1) Other automobile chassis and bodies, chassis

1 and bodies for trailers and semi-trailers (other than
 2 house trailers) suitable for use in connection with pas-
 3 senger automobiles, and motorcycles (including in each
 4 case parts or accessories therefor sold on or in connection
 5 therewith or with the sale thereof), except tractors, 10
 6 per centum.

7 “(2) Chassis and bodies for house trailers (includ-
 8 ing in each case parts or accessories therefor sold on or
 9 in connection therewith or with the sale thereof), 7
 10 per centum.

11 A sale of an automobile, trailer, or semi-trailer shall, for
 12 the purposes of this subsection, be considered to be a sale of
 13 the chassis and of the body.”

14 (c) INCREASE IN TAX ON PARTS OR ACCESSORIES.—
 15 Section 3403 (c) (tax on parts or accessories for automo-
 16 biles, etc.) is hereby amended by striking out “5 per centum”
 17 and inserting in lieu thereof “8 per centum”.

18 (d) REBUILT PARTS OR ACCESSORIES.—Section 3403
 19 (c) (tax on parts or accessories) is hereby amended by
 20 adding at the end thereof the following: “In determining
 21 the sale price of a rebuilt automobile part or accessory there
 22 shall be excluded from the price, in accordance with regula-
 23 tions prescribed by the Secretary, the value of a like part or
 24 accessory accepted in exchange.”

25 (e) TECHNICAL AMENDMENT.—Section 3403 (e)

1 (relating to certain credits against the tax imposed by section
 2 3403) is hereby amended by striking out “in the case of an
 3 article taxable under subsection (a), 5 per centum, and in
 4 the case of an article taxable under subsection (b), 7 per
 5 centum” and inserting in lieu thereof “in the case of an article
 6 taxable under subsection (a), 8 per centum, in the case of
 7 an article taxable under subsection (b) (1), 10 per centum,
 8 and in the case of an article taxable under subsection (b)
 9 (2), 7 per centum”.

10 (f) PARTS OR ACCESSORIES FOR FARM EQUIP-
 11 MENT.—Section 3443 (a) (3) (A) is hereby amended
 12 by striking out the period at the end of clause (v) and in-
 13 serting in lieu thereof a semicolon, and by inserting after
 14 clause (v) the following:

15 “(vi) in the case of articles taxable under
 16 section 3403 (c) (other than spark plugs,
 17 storage batteries, leaf springs, coils, timers, and
 18 tire chains), used or resold for use as repair
 19 or replacement parts or accessories for farm
 20 equipment (other than equipment taxable
 21 under subsection (a) or (b) of section
 22 3403) ;”.

23 (g) EFFECTIVE DATE OF SUBSECTION (f).—The
 24 amendment made by subsection (f) shall be effective with
 25 respect to articles purchased (by the user thereof) on or

1 after the first day of the first month which begins more
2 than ten days after the date of the enactment of this Act.

3 (h) REMOVAL OF TAX ON TIRES FOR TOYS, ETC.—
4 Paragraph (1) of section 3400 (a) (relating to tax on
5 tires) is hereby amended by adding at the end thereof the
6 following: “The tax imposed by this paragraph shall not
7 apply to (A) tires which are not more than 20 inches in
8 diameter and not more than one and three-fourths inches
9 in cross-section, if such tires are of all-rubber construction
10 (whether hollow center or solid) without fabric or metal
11 reinforcement, or (B) tires of extruded tiring with internal
12 wire fastening agent.”

13 **SEC. 482. NAVIGATION RECEIVERS SOLD TO THE UNITED**
14 **STATES.**

15 (a) EXEMPTION ON SALES TO UNITED STATES OF
16 CERTAIN RADIO SETS.—Section 3404 (a) (relating to man-
17 ufacturers’ excise tax on radio receiving sets, etc.) is hereby
18 amended by adding at the end thereof the following new sen-
19 tence: “No tax shall be imposed under this subsection with
20 respect to the sale to the United States for its exclusive use
21 of a communication, detection, or navigation receiver of the
22 type used in commercial, military, or marine installations.”

23 (b) TAX-FREE SALES OF RADIO PARTS.—Section 3404
24 (b) (relating to manufacturers’ excise tax on component

1 parts of radio receiving sets, etc.) is hereby amended by add-
 2 ing at the end thereof the following new sentence: "Under
 3 regulations prescribed by the Secretary, no tax shall be im-
 4 posed under this subsection with respect to the sale of any
 5 article for use by the vendee as material in the manufacture or
 6 production of, or as a component part of, communication,
 7 detection, or navigation receivers of the type used in com-
 8 mercial, military, or marine installations if such receivers
 9 are to be sold by the vendee to the United States for its
 10 exclusive use. If any article sold tax-free to such vendee
 11 is not so used by him, or being so used the receiver is not so
 12 sold, the vendee shall be considered as the manufacturer or
 13 producer of such article."

14 (c) REFUND IN CASE OF USE OF PARTS.—Section
 15 3443 (a) (1) (relating to credits and refunds) is hereby
 16 amended to read as follows:

17 " (1) to a manufacturer or producer, in the amount
 18 of any tax under this chapter which has been paid
 19 with respect to the sale of—

20 " (A) any article (other than a tire, inner tube,
 21 or automobile radio or television receiving set tax-
 22 able under section 3404) purchased by him and
 23 used by him as material in the manufacture or
 24 production of, or as a component part of, an article

1 with respect to which tax under this chapter has
2 been paid, or which has been sold free of tax by
3 virtue of section 3442, relating to tax-free sales;

4 “(B) any article described in section 3404 (b)
5 purchased by him and used by him as material in
6 the manufacture or production of, or as a com-
7 ponent part of, communication, detection, or navi-
8 gation receivers of the type used in commercial,
9 military, or marine installations if such receivers
10 have been sold by him to the United States for its
11 exclusive use.”

12 (d) REFUND IN CASE OF RESALE TO UNITED
13 STATES.—Section 3443 (a) (3) (A) is hereby amended
14 by adding at the end thereof the following:

15 “(vii) in the case of a communication,
16 detection, or navigation receiver of the type
17 used in commercial, military, or marine installa-
18 tions, resold to the United States for its ex-
19 clusive use.”

20 (e) USE BY MANUFACTURER OF TAXABLE PARTS.—
21 Section 3444 (b) (relating to tax on use by manufacturer of
22 taxable articles) is hereby amended by adding at the end
23 thereof the following: “This section shall not apply with
24 respect to the use by the manufacturer, producer, or importer
25 of articles described in section 3404 (b) if such articles are

1 used by him as material in the manufacture or production of,
2 or as a component part of, communication, detection, or
3 navigation receivers of the type used in commercial, military,
4 or marine installations if such receivers are to be sold to the
5 United States for its exclusive use.”

6 (f) EFFECTIVE DATES.—The amendments made by
7 subsections (a) and (b) shall take effect as provided in
8 section 489. The amendments made by subsections (c) and
9 (e) shall be applicable with respect to articles used in
10 receivers sold to the United States on or after the first day of
11 the first month which begins more than ten days after the
12 date of the enactment of this Act, and the amendment made
13 by subsection (d) shall be applicable with respect to
14 articles resold to the United States on or after such
15 first day.

16 **SEC. 483. REPEAL OF TAX ON CERTAIN SPORTING GOODS;**
17 **INCREASE IN TAX ON REMAINING SPORTING**
18 **GOODS.**

19 Section 3406 (a) (1) (relating to manufacturers’ ex-
20 cise tax on sporting goods) is hereby amended to read as
21 follows:

22 “(1) SPORTING GOODS.—Badminton nets; badminton
23 rackets (measuring 22 inches over-all or more in length);
24 badminton racket frames (measuring 22 inches over-all or
25 more in length); badminton racket string; badminton shuttle-

1 cocks; badminton standards; baseballs; baseball bats (meas-
 2 uring 26 inches or more in length) ; baseball body protectors
 3 and shin guards; baseball gloves and mitts; baseball masks;
 4 billiard and pool tables (measuring 45 inches over-all or
 5 more in length) ; billiard and pool balls and cues for such
 6 tables; bowling balls and pins; clay pigeons and traps for
 7 throwing clay pigeons; croquet balls and mallets; curling
 8 stones; deck tennis rings, nets, and posts; fishing rods, creels,
 9 reels, and artificial lures, baits, and flies; golf bags (measur-
 10 ing 26 inches or more in length) ; golf balls; golf clubs
 11 (measuring 30 inches or more in length) ; polo balls; polo
 12 mallets; skis; ski poles; snow shoes; squash balls; squash
 13 rackets (measuring 22 inches over-all or more in length) ;
 14 squash racket frames (measuring 22 inches over-all or more
 15 in length) ; squash racket string; table tennis tables, balls,
 16 nets, and paddles; tennis balls; tennis nets; tennis rackets
 17 (measuring 22 inches over-all or more in length) ; tennis
 18 racket frames (measuring 22 inches over-all or more in
 19 length) ; tennis racket string; 15 per centum.”

20 **SEC. 484. ADDITION OF CERTAIN ITEMS TO THE TAX ON**
 21 **ELECTRIC, GAS, AND OIL APPLIANCES; RE-**
 22 **MOVAL OF TAX ON ELECTRIC HEATING PADS.**

23 Section 3406 (a) (3) (relating to manufacturers’
 24 excise tax on electric, gas, and oil appliances) is hereby
 25 amended (1) by striking out “electric heating pads and

1 blankets” and inserting in lieu thereof “electric blankets,
 2 sheets, and spreads”, and (2) by inserting after “juicers;”
 3 the following: “and the following appliances of the house-
 4 hold type: electric belt-driven fans; electric or gas
 5 clothes driers; electric door chimes; electric dehumidi-
 6 fiers; electric dishwashers; electric floor polishers and
 7 waxers; electric food choppers and grinders; electric hedge
 8 trimmers; electric ice cream freezers; electric mangles;
 9 electric motion or still picture projectors; electric pants
 10 pressers; electric shavers; and power lawn mowers;”.

11 **SEC. 485. ADJUSTMENTS OF TAX RATES ON PHOTOGRAPHIC**
 12 **APPARATUS AND FILM; REPEAL OF TAX ON**
 13 **CERTAIN ITEMS.**

14 (a) **ITEMS SUBJECT TO TAX.**—Section 3406 (a) (4)
 15 (relating to the manufacturers’ excise tax on photographic
 16 apparatus) is hereby amended to read as follows:

17 “(4) **PHOTOGRAPHIC APPARATUS.**—Cameras and
 18 camera lenses, and unexposed photographic film in rolls
 19 (including motion picture film), 20 per centum. The
 20 tax imposed under this paragraph shall not apply to
 21 X-ray cameras, to cameras weighing more than four
 22 pounds exclusive of lens and accessories, to still camera
 23 lenses having a focal length of more than one hundred
 24 and twenty millimeters, to motion picture camera lenses
 25 having a focal length of more than thirty millimeters, to

1 X-ray film, to film more than one hundred and fifty
2 feet in length, or to film more than twenty-five feet
3 in length and more than thirty millimeters in width.

4 Any person who acquires unexposed photographic film
5 not subject to tax under this paragraph and sells such
6 unexposed film in form and dimensions subject to tax
7 hereunder (or in connection with a sale cuts such film
8 to form and dimensions subject to tax hereunder) shall
9 for the purposes of this subsection be considered the
10 manufacturer of the film so sold by him."

11 (b) FLOOR STOCKS REFUNDS ON BULBS.—

12 (1) With respect to any photo-flash or other bulb
13 upon which the tax imposed under section 3406 (a)
14 (4) of the Internal Revenue Code has been paid, and
15 which on the effective date specified in section 489 of
16 this Act is held by any person and intended for sale, or
17 for use in the manufacture or production of any article
18 intended for sale, there shall be credited or refunded to
19 the manufacturer or producer of such bulb (without
20 interest), subject to such regulations as may be pre-
21 scribed by the Secretary, an amount equal to so much
22 of the tax so paid as has been paid by such manufacturer
23 or producer to such person as reimbursement for the
24 elimination on such effective date of the tax on such bulb,

1 if claim for such credit or refund is filed with the Secre-
2 tary prior to the expiration of three months after such
3 effective date. No credit or refund shall be allowable
4 under this paragraph for any bulb held by any person
5 for sale which was purchased by such person as a com-
6 ponent part of any other article.

7 (2) No person shall be entitled to credit or refund
8 under paragraph (1) unless he has in his possession such
9 evidence of the inventories with respect to which he has
10 made the reimbursements described in paragraph (1) as
11 the regulations under paragraph (1) shall prescribe.

12 (3) All provisions of law, including penalties, ap-
13 plicable with respect to the tax imposed under section
14 3406 (a) (4) of the Internal Revenue Code shall,
15 insofar as applicable and not inconsistent with this sub-
16 section, be applicable in respect of the credits and refunds
17 provided for in this subsection to the same extent as if
18 such credits or refunds constituted credits or refunds of
19 such taxes.

20 **SEC. 486. IMPOSITION OF TAX ON MECHANICAL PENCILS**
21 **AND FOUNTAIN AND BALL POINT PENS.**

22 Chapter 29 (relating to manufacturers' excise and im-
23 port taxes) is hereby amended by adding after section 3407
24 the following new section:

1 **"SEC. 3408. TAX ON MECHANICAL PENCILS AND FOUNTAIN**
2 **AND BALL POINT PENS.**

3 “(a) IMPOSITION OF TAX.—There shall be imposed
4 on the following articles, sold by the manufacturer, producer,
5 or importer, a tax equal to 20 per centum of the price for
6 which so sold: Mechanical pencils, fountain pens, and ball
7 point pens.

8 “(b) EXEMPTION IF ARTICLE TAXABLE AS JEW-
9 ELRY.—No tax shall be imposed under this section on any
10 article taxable under section 2400 (relating to jewelry tax).”

11 **SEC. 487. REPEAL OF TAX ON ELECTRICAL ENERGY.**

12 (a) REPEAL OF TAX.—Section 3411 (relating to tax
13 on electrical energy for domestic or commercial consump-
14 tion), and sections 3441 (d), 3444 (b), and 3447 (c)
15 (related provisions), are hereby repealed.

16 (b) EFFECTIVE DATE.—

17 (1) Except as provided in paragraph (2), the
18 provisions of subsection (a) shall apply to electrical
19 energy sold on or after the first day of the first month
20 which begins more than ten days after the date of the
21 enactment of this Act.

22 (2) In the case of electrical energy sold which is
23 billed to the customer for a period beginning before the
24 effective date specified in paragraph (1) and ending
25 on or after such date, the provisions of subsection (a)

shall apply to that portion of the amount billed for the electrical energy sold during such period which the number of days in such period on and after such effective date bears to the total number of days in such period. This section shall not apply to electrical energy sold before such effective date for which a bill was rendered prior to such date.

SEC. 488. TAX ON GASOLINE.

(a) **INCREASE IN RATE.**—Section 3412 (a) is hereby amended by striking out “1½ cents” and inserting in lieu thereof “2 cents”.

(b) **FLOOR STOCKS TAX.**—Section 3412 is hereby amended by adding at the end thereof the following new subsection:

“(f) **1951 FLOOR STOCKS TAX.**—On gasoline subject to tax under this section which, on the effective date of section 488 (a) of the Revenue Act of 1951, is held and intended for sale, there shall be levied, assessed, collected, and paid a floor stocks tax at the rate of ½ cent per gallon. The tax shall not apply to gasoline in retail stocks held at the place where intended to be sold at retail, nor to gasoline held for sale by the manufacturer, producer, or importer thereof.”

SEC. 489. EFFECTIVE DATE OF PART VIII.

Except as otherwise expressly provided in this part, the amendments made by this part shall take effect on the

1 first day of the first month which begins more than 10 days
2 after the date of the enactment of this Act.

3 **Part IX—Miscellaneous Excise Tax Amendments**

4 **SEC. 491. REDUCTION OF TAX ON TELEGRAPH DISPATCHES.**

5 (a) **REDUCTION OF TAX.**—The first sentence of section
6 3465 (a) (1) (B) is hereby amended to read as follows:
7 “On the amount paid within the United States for each
8 telegraph, cable, or radio dispatch or message a tax equal
9 to 20 per centum of the amount so paid, except that in the
10 case of each international telegraph, cable, or radio dispatch
11 or message the rate shall be 10 per centum.”

12 (b) **CLERICAL AMENDMENT.**—The table contained in
13 section 1650 (relating to the war tax rates of certain miscel-
14 laneous taxes) is hereby amended by striking out the
15 following:

“3465 (a) (1) (B) (in- sofar as it relates to domestic telegraph, cable, and radio dis- patches).”	Domestic Telegraph, Cable, or Radio Dispatches.	15 per centum.....	25 per centum.”
--	--	--------------------	-----------------

16 (c) **EFFECTIVE DATE.**—Subject to the provisions of
17 subsection (d), the amendments made by this section shall
18 apply with respect to amounts paid on or after the rate reduc-
19 tion date (as defined in subsection (e)) for services rendered
20 on or after such date.

21 (d) **AMOUNTS PAID PURSUANT TO BILLS REN-**
22 **DERED.**—The amendments made by this section shall not
23 apply with respect to amounts paid pursuant to bills rendered

1 prior to the rate reduction date. In the case of amounts paid
2 pursuant to bills rendered on or after the rate reduction date
3 for services for which no previous bill was rendered, the
4 amendments made by this section shall apply except with
5 respect to such services as were rendered more than 2
6 months before such date. In the case of services rendered
7 more than 2 months before such date the provisions of
8 sections 1650 and 3465 of the Internal Revenue Code in
9 effect at the time such services were rendered shall be
10 applicable to the amounts paid for such services.

11 (e) **RATE REDUCTION DATE.**—For the purposes of this
12 section the term “rate reduction date” means the first day
13 of the first month which begins more than 10 days after
14 the date of the enactment of this Act.

15 **SEC. 492. EXEMPTION OF FISHING TRIPS FROM TAX ON**
16 **TRANSPORTATION.**

17 (a) **EXEMPTION.**—Section 3469 (b) (relating to
18 exemption of certain trips from the tax on transportation of
19 persons) is hereby amended by striking out “or to amounts”
20 and inserting in lieu thereof “to amounts”, and by inserting
21 after the words “one month or less” the following “, or to
22 amounts paid for transportation by boat for the purpose of
23 fishing from such boat”.

24 (b) **EFFECTIVE DATE.**—The amendment made by sub-

1 section (a) shall apply to amounts paid on or after the first
2 day of the first month which begins more than 10 days after
3 the date of the enactment of this Act for transportation on
4 or after such first day.

5 **SEC. 493. TRANSPORTATION OF OIL BY WATER.**

6 (a) **IMPOSITION OF TAX.**—Chapter 30 (relating to
7 transportation and communications taxes) is hereby amended
8 by adding at the end thereof the following new subchapter:

9 **“SUBCHAPTER F—TRANSPORTATION OF OIL BY**
10 **WATER**

11 **“SEC. 3476. TRANSPORTATION OF OIL BY WATER.**

12 “(a) **TAX.**—There shall be imposed upon all transporta-
13 tion (other than transportation taxable under section 3475)
14 of crude petroleum and liquid products thereof by water,
15 from one point in the United States to another, a tax equal to
16 3 per centum of the fair charge for such transportation.

17 “(b) **FAIR CHARGE DEFINED.**—For the purposes of
18 this section, the fair charge for transportation shall be com-
19 puted on—

20 “(1) the basis of the charge for such transportation
21 made by persons performing like transportation for hire,
22 as determined by the Secretary, or

23 “(2) if no such charge exists, then on the basis
24 of a reasonable charge for such transportation, as deter-
25 mined by the Secretary.

1 “(c) EXEMPTION FROM TAX.—The tax imposed by
2 this section shall not apply to—

3 “(1) transportation within the premises of a pro-
4 ducing property, refinery, bulk plant, terminal, or gaso-
5 line plant;

6 “(2) transportation in a vessel of a product to be
7 used (without unloading) as fuel supplies, ship’s stores,
8 sea stores, or legitimate equipment, on such vessel;

9 “(3) transportation by and for the exclusive use of
10 the Government of the United States, or by and for the
11 exclusive use of any State, Territory, or political subdi-
12 vision thereof, or the District of Columbia; or

13 “(4) products transported by an individual for his
14 personal use and not for business purposes.

15 “(d) RETURN AND PAYMENT OF TAX.—The tax im-
16 posed by this section shall be paid by the person furnishing
17 the transportation subject to the tax. Every person liable for
18 the tax imposed under this section shall make returns and pay
19 such taxes to the collector for the district in which is located
20 his principal place of business or, if he has no principal place
21 of business in the United States, then to the collector at
22 Baltimore, Maryland. Such returns shall contain such infor-
23 mation and be made at such times and in such manner as the
24 Secretary by regulations may prescribe.”

25 (b) TECHNICAL AMENDMENT.—Section 3475 (a)

1 (relating to tax on transportation of property) is hereby
2 amended by adding at the end thereof the following new
3 sentence: "In the case of transportation of crude petroleum
4 and liquid products thereof by water from one point in the
5 United States to another, if (other than in the case of an
6 arm's length transaction) the amount paid for such trans-
7 portation is less than the fair charge therefor (as defined in
8 section 3476 (b)) the tax imposed by section 3476, and not
9 the tax imposed by this section, shall apply with respect to
10 such transportation."

11 (c) EFFECTIVE DATE.—The amendments made by this
12 section shall be applicable only with respect to transportation
13 which begins on or after the first day of the first month
14 which begins more than ten days after the date of the
15 enactment of this Act.

16 **SEC. 494. ARTICLES FROM FOREIGN TRADE ZONES.**

17 (a) IMPORTED ARTICLES.—Upon all articles specified
18 in section 2000 (c) (2), 2800 (a), 3030 (a), or 3150
19 (a) of the Internal Revenue Code on which the internal
20 revenue taxes imposed by law have been determined,
21 pursuant to section 3 of the Act of June 18, 1934, as
22 amended (U. S. C., title 19, sec. 81c), prior to the
23 effective date of the rates of tax imposed on such
24 articles by this Act, and which on or after such effective
25 date are brought from foreign trade zones into customs

1 territory of the United States, there shall be levied, assessed,
2 collected, and paid on such articles, in addition to the tax
3 so determined, an additional tax at rates equal to the in-
4 creases in rates of tax made applicable to such articles by
5 this Act. The tax imposed by this subsection shall be col-
6 lected, paid, and accounted for at the same time and in the
7 same manner as tax on such article is collected, paid, and
8 accounted for when brought from the foreign trade zone
9 into the customs territory.

10 (b) PREVIOUSLY TAXPAID ARTICLES.—Upon all tax-
11 paid articles specified in section 2000 (c) (2), 2800 (a),
12 3030 (a), or 3150 (a) of the Internal Revenue Code
13 which have been taken into foreign trade zones from
14 the customs territory of the United States and placed
15 under the supervision of the collector of customs, pur-
16 suant to the second proviso of section 3 of the Act
17 of June 18, 1934, as amended (U. S. C., title 19, sec.
18 81c), prior to the effective date of the rates of tax imposed
19 on such articles by this Act, and which on or after such
20 effective date are (without loss of identity) returned from
21 foreign trade zones to customs territory of the United States,
22 there shall be levied, assessed, collected, and paid on such
23 articles an additional tax at rates equal to the increases in
24 rates of tax made applicable to such articles by this Act.

1 The tax imposed by this subsection on any article shall be
2 collected, paid, and accounted for at the same time and in
3 the same manner as if such article had been taken into the
4 foreign trade zone free of tax.

5 **TITLE V—MISCELLANEOUS PROVISIONS**
6 **AND AMENDMENTS**

7 **SEC. 501. EXEMPTION OF CERTAIN ORGANIZATIONS FROM**
8 **INCOME TAX FOR PRIOR TAXABLE YEARS.**

9 Section 302 of the Revenue Act of 1950 (relating to
10 exemption of certain organizations for past years) is amended
11 by adding at the end thereof the following new subsection:

12 “(d) PROFITS INURING TO THE BENEFIT OF CERTAIN
13 EDUCATIONAL ORGANIZATIONS.—For any taxable year
14 beginning prior to January 1, 1951, an organization operated
15 for the primary purpose of carrying on a trade or business
16 for profit, no part of the net earnings of which inures to the
17 benefit of any private shareholder or individual and all of the
18 net earnings of which inure to the benefit of an educational
19 organization which normally maintains a regular faculty and
20 curriculum and normally has a regularly organized body of
21 pupils or students in attendance at the place where its educa-
22 tional activities are regularly carried on, shall not be denied
23 exemption from taxation under section 101 of the Internal
24 Revenue Code on the ground that it is carrying on a trade or
25 business for profit.”

1 SEC. 502. EXCESS PROFITS CREDIT BASED ON INCOME.

2 (a) PERCENTAGE OF AVERAGE BASE PERIOD NET
3 INCOME TAKEN INTO ACCOUNT.—

4 (1) IN GENERAL.—Paragraph (1) (A), and
5 paragraph (2), of section 435 (a) (relating to excess
6 profits credit based on income) are each amended by
7 striking out “85 per centum” and inserting in lieu
8 thereof “75 per centum”.

9 (2) TAXABLE YEARS BEGINNING BEFORE JANUARY
10 1, 1951, AND ENDING AFTER DECEMBER 31, 1950.—
11 Section 435 (a) is hereby amended by adding at the end
12 thereof the following new paragraph:

13 “(4) TAXABLE YEARS BEGINNING IN 1950 AND
14 ENDING IN 1951.—In the case of a taxable year be-
15 ginning before January 1, 1951, and ending after
16 December 31, 1950, there shall be used, for the pur-
17 poses of paragraph (1) (A) and paragraph (2), in
18 lieu of 85 per centum of the average base period net
19 income, an amount equal to the sum of—

20 “(A) that portion of an amount equal to 85
21 per centum of the average base period net income
22 which the number of days in such taxable year prior
23 to January 1, 1951, bears to the total number of
24 days in such taxable year, plus

25 “(B) that portion of an amount equal to 75

1 per centum of the average base period net income
2 which the number of days in such taxable year after
3 December 31, 1950, bears to the total number of
4 days in such taxable year.”

5 (b) EFFECTIVE DATE.—The amendments made by sub-
6 section (a) shall be applicable only with respect to taxable
7 years ending after December 31, 1950.

8 **SEC. 503. ESTATE AND GIFT TAX TREATMENT OF UNITED**
9 **STATES BONDS HELD BY CERTAIN NONRESI-**
10 **DENT ALIENS.**

11 (a) ESTATE TAX.—Effective with respect to estates of
12 decedents dying after February 10, 1939, section 861 (re-
13 lating to the computation of the net estate of a decedent
14 nonresident not a citizen of the United States) is hereby
15 amended by adding at the end thereof the following new
16 subsection:

17 “(c) UNITED STATES BONDS.—For the purposes of
18 subsection (a), the value of the gross estate (determined
19 as provided in section 811) of a decedent who was not
20 engaged in business in the United States at the time of his
21 death—

22 “(1) shall not include obligations issued by the
23 United States prior to March 1, 1941; and

24 “(2) shall include obligations issued by the United
25 States on or after March 1, 1941, but only if the dece-

1 dent died after the date of the enactment of the Revenue
2 Act of 1951.”

3 (b) GIFT TAX.—Effective with respect to gifts made
4 after the date of enactment of this Act, section 1000 (b)
5 (relating to application of gift tax) is hereby amended by
6 adding at the end thereof the following: “In the case of such
7 a nonresident who is not engaged in business in the United
8 States at the time of a transfer of obligations issued by the
9 United States, the tax shall apply in respect of any such
10 obligations only if issued on or after March 1, 1941.”

11 **SEC. 504. REORGANIZATION PLAN NUMBERED 26 OF 1950.**

12 The provisions of Reorganization Plan Numbered 26
13 of 1950 shall be applicable to all functions vested by this
14 Act in any officer, employee, or agency of the Department
15 of the Treasury.

 Passed the House of Representatives June 22, 1951.

Attest:

RALPH R. ROBERTS,

Clerk.

AN ACT

To provide revenue, and for other purposes.

JUNE 25 (legislative day, JUNE 21), 1951

Read twice and referred to the Committee on Finance

Monday, August 27, 1951

Daily Digest

HIGHLIGHTS

Senate passed 54 bills on call of the calendar, and debated motion to take up export controls.

Senate Finance acted on amendments to tax bill and Senate Judiciary voted to report numerous bills and nominations.

Senate

Chamber Action

Routine Proceedings, pages 10873-10876, 10893-10895

Bills Introduced: Ten bills and two resolutions were introduced, as follows: S. 2053 to S. 2062; and S. Res. 198 and S. Res. 199.

Pages 10874, 10891, 10893

Bills Reported: Reports were made as follows:

H. R. 5113, to maintain the security and promote the foreign policy and provide for the welfare of the United States by furnishing assistance to friendly nations in the interest of international peace and security, with amendment (S. Rept. 703);

S. 715, H. R. 1253, 1463, 2165, 2459, 2498, 2807, 3026, 3731, S. 1437, 2027, H. R. 990, private bills (S. Repts. 704 to 715, respectively);

S. 16, annuities for widows of Federal judges, with amendment (S. Rept. 716);

S. 1570, immunity of witnesses appearing before congressional committees, with amendment (S. Rept. 717);

S. Res. 198, providing an additional \$195,000 for the Subcommittee on Internal Security of the Committee on the Judiciary for 15 months beginning November 1, 1951 (S. Rept. 718); and

H. R. 4688, private bill (S. Rept. 719).

Page 10874

Private Bills: A conference on H. R. 745, a private bill, was agreed to, and Senators Kilgore, Magnuson, and Langer were appointed conferees.

H. R. 744, a private bill, was, during call of calendar on motion of Senator McCarran, recommitted to the Committee on the Judiciary.

S. 1437, a private bill, was passed with committee amendment.

Pages 10895-10896, 10901, 10912

Employment Fees: Senate agreed to House amendment to S. 15, making it an offense for private employment agencies to solicit or accept fees for referring persons for employment by the United States, thus clearing the bill for the President.

Page 10895

Condolence Resolution: S. Res. 199, expressing condolence on the death of Representative Fellows, was adopted, and Senators Brewster and Smith of Maine were appointed to the funeral committee.

Pages 10890-10892

Calendar Bills Passed: On call of the calendar, 54 unobjected-to bills, of which 37 were private, were passed, as follows:

Without amendment and cleared for President:

District of Columbia building associations: H. R. 3957, to provide that certain functions of the Comptroller of Currency which relate to building associations organized in, or doing business in, the District of Columbia shall hereafter be performed by the Home Loan Bank Board;

Treble damage actions: H. R. 319, amending the Servicemen's Readjustment Act of 1944, by providing for treble-damage actions;

Coinage: H. R. 3176, authorizing the coinage of 50-cent pieces to commemorate the lives and perpetuate the ideals and teachings of Booker T. Washington and George Washington Carver;

Experimental fuel station: H. R. 4260, to authorize the Secretary of the Army to transfer to the Department of the Interior the quartermaster experimental fuel station, Pike County, Miss.;

National Guard uniforms: H. R. 4113, to provide that distinctive mark or insignia shall not be required in the uniforms worn by members of the United States National Guard, both Army and Air;

State easements: H. R. 4024, to authorize certain easements in Texas, California, and Missouri;

Mollusks: H. R. 4443, to prevent the entry of certain mollusks into the United States;

Private bills: Eighteen private bills: H. R. 581, 627, 644, 970, 982, 1454, 1920, 2158, 2160, 2179, 2292, 2514, 2787, 3214, 3819, 3823, 4038, and 4674.

With amendment, to be sent back to House:

Private bills: Five private bills: H. R. 608, 725, 857, 1971, and 2276.

Without amendment and cleared for House:

Public land: S. 752, to authorize the Secretary of Agriculture to convey certain lands to the Maryland National Capital Park and Planning Commission;

District of Columbia tax stamps: S. 1004, to provide for the redemption of District of Columbia tax stamps;

Federal employees' compensation: S. 1271, to permit employees of the Canal Zone Government and Panama Canal Co. to appeal decisions under the Federal Employees' Compensation Act to the Employees' Compensation Appeals Board;

School construction: S. 703, to provide that, in the determination of the amount which certain local educational agencies are entitled to receive for school construction purposes, no reduction in such amount shall be made for prior construction under the WPA, PWA, and NYA programs;

VA hospital: S. 306, to name VA hospital at Birmingham, Ala., in honor of Gen. William Crawford Gorgas; and

Private bills: Six private bills: S. Con. Res. 41, S. 575, 954, 1277, 1772, and 1844.

With amendment and cleared for House:

Cancellation of claims: S. 532, to authorize cancellation or settlement of claims against estates of old-age assistance recipients;

District of Columbia policemen and firemen: S. 264, granting policemen and firemen compensatory time for working on holidays;

District of Columbia memorial: S. 1533, to designate a Floyd B. Olson Memorial Triangle in the District of Columbia;

District of Columbia boiler inspection: S. 491, to amend the Boiler Inspection Act of the District of Columbia; and

Private bills: Seven private bills: S. 519, 617, 669, 906, 1013, 1023, and 1713.

Pages 10896, 10899-10913

Resolutions Adopted: The following resolutions were adopted:

Veterans' education: S. Res. 124, interpreting the provisions of Public Law 610 of Eighty-first Congress relating to charges of educational institutions for the training of veterans;

Private bill: S. Res. 193, referring private bill to Court of Claims.

Pages 10906, 10908

Bills Indefinitely Postponed: The following bills were indefinitely postponed on call of the calendar: S. 1489, S. Res. 137, and S. Res. 133.

Pages 10899, 10902

Budget: S. 913, to create a Joint Committee on the Budget, was, on motion of Senator Wherry, referred to Committee on Rules and Administration. Later, Senator McClellan entered motion to reconsider this action. (S. 913 had been reported by the Committee on Expenditures in the Executive Departments on July 25, 1951.)

Pages 10900-10901

Exports Control: During consideration of motion to take up H. R. 4550, control of exports to nations threatening security of the United States, a point of order was made that the bill had not been on the calendar for one legislative day. On motion of Senator McFarland, the Senate adjourned for 8 minutes. Following the morning business in the new legislative day, the calendar was called, after which Senator McFarland renewed his motion to take up H. R. 4550, which was later adopted by vote of 32 yeas to 29 nays.

Pages 10873, 10913-10928

Nominations: Five Navy nominations were received.

Page 10892

Program for Tuesday: Senate recessed at 9:31 p. m. until noon Tuesday, August 28, when it will consider H. R. 4550, control of exports to nations threatening security of United States.

Committee Meetings

(Committees not listed did not meet)

APPROPRIATIONS—ARMED SERVICES

Committee on Appropriations: Continuing hearings on 1952 budget estimates for the various branches of the armed services (H. R. 5054), Subcommittee on Armed Services received testimony by Anna M. Rosenberg, Assistant Secretary of Defense, and Clayton Fritchie, Director of Public Information, Department of Defense, accompanied by their respective assistants, on proposed provisions in the bill on civilian personnel, public information, and release of reserves.

Hearings continue tomorrow.

MILITARY AND NAVAL CONSTRUCTION

Committee on Armed Services: In executive session, the committee heard the following witnesses testify in support of the enactment of H. R. 4914, to authorize certain construction at military and naval installations: Robert A. Lovett, Deputy Secretary of Defense; W. J. McNeil, Assistant Secretary of Defense; Karl R. Bendtson, Assistant Secretary of the Army; and Maj. Gen. William O. Reeder, Col. Eugene F. Cardwell, Col. William A. Carter, Maj. Gen. G. J. Nold, and R. B. Foster, Jr., all of the Army.

Hearings continue tomorrow.

TAX REVISION

Committee on Finance: Following another executive session of the committee for the consideration of H. R. 4473, tax-revision bill, the chairman announced actions on further amendments to the bill, as follows:

(1) It agreed to increase the normal tax rate on corporations from 25 to 27 percent and the surtax rate from 22 to 25 percent. This makes the top bracket rate for corporations with incomes of \$25,000 or less, 27 percent instead of the 30 percent provided by the House-passed bill. For corporations with larger incomes the top

bracket rate would be 52 percent, the same as under the House version. This makes the combined income and excess profits tax rate 82 percent, the same as under the House version.

(2) The ceiling, or maximum on the combined income tax and excess profits tax rate, is to be 70 percent, which also is the same as that provided by the House version.

(3) It rejected the provision of the House-passed bill which reduced the percentage of the average base period net income which may be used in computing the excess profits tax credit based on income from 85 to 75 percent.

(4) December 31, 1953, was set as the termination date for corporate rate increases.

On Saturday, August 25, the committee took the following actions: It disapproved sections 123, on "related corporations", and 310, on capital-gains, of the House-approved bill; and approved sections 305, on capital losses, and 308, on capital gains.

WIDOWS OF JUDGES, WAR CLAIMS, CONGRESSIONAL WITNESSES, PRIVATE BILLS, INTERNAL SECURITY, AND NOMINATIONS

Committee on the Judiciary: In executive session, committee voted to report with amendment S. 16, providing annuities for widows of Federal judges; S. 1570, relative to immunity of witnesses appearing before congressional committees; and S. 1415, to amend the War Claims Act of 1948, relating to certain organizations in the Philippines which aided Americans during World War II.

It agreed to the introduction and report of an original resolution providing an additional \$195,000 to carry out the work of the Subcommittee on Internal Security for 15 months beginning November 1, 1951, ending January 31, 1953.

Nine private immigration bills (S. 715, 2027, H. R. 1463, 2165, 2498, 2807, 3731, 4688, and S. 1437), and four private claims bills (H. R. 990, 1253, 2459, and 3026) were ordered reported.

Five nominations were reported favorably, as follows: Luther W. Youngdahl, of Minnesota, to be U. S. district judge for the District of Columbia; Roberto H. Todd, Jr., to be chief justice of the Supreme Court of Puerto Rico; Carl J. Werner to be U. S. marshal for the eastern district of Illinois; Otto Schoen to be U. S. marshal for the eastern district of Missouri; and Charles S. Duncombe, of New Jersey, to be Examiner in Chief on the Board of Appeals, U. S. Patent Office.

Four private immigration bills and one private claims bill were indefinitely postponed.

NATIONAL LABOR RELATIONS

Committee on Labor and Public Welfare: Subcommittee on Labor and Labor-Management Relations held hearings on S. 1973, to amend the National Labor Relations Act with reference to the building and construction industry as to days of employment before joining the union, with the following proponent witnesses expressing their views on the bill: John Dales, Jr., and Richard Carlson, both of the Screen Actors Guild, Hollywood, Calif.; Roy M. Brewer, Hollywood AFL, Film Council; Richard Gray, Building and Construction Trades Department, AFL, Washington; and William E. Maloney, International Union of Operating Engineers. James J. Reynolds, Jr., NLRB, discussed provisions of the bill for the information of the subcommittee.

Hearings continue tomorrow.

House of Representatives

Chamber Action

The House was not in session today. Its next meeting will be held on Wednesday, September 12, at 12 o'clock noon.

Committee Meetings

INDIANS, ALASKA

Committee on Interior and Insular Affairs: Morris Subcommittee on Indian Affairs held a hearing on H. R. 4388, to establish an Alaska panel of the Indian Claims

Commission to hear and determine claims to lands in Alaska based on aboriginal occupancy or specified statutes, which have not been confirmed by patent or valid legal action. Witnesses heard were C. M. Granger, Assistant Chief of U. S. Forest Service; Dillon S. Myer, Commissioner of Bureau of Indian Affairs; and James E. Curry, an attorney of Washington, D. C. The departmental officials spoke on behalf of the proposed legislation, with Mr. Granger requesting further study, while the last-mentioned witness spoke in opposition.

Adjourned subject to call of the Chair.

COMMITTEE MEETINGS FOR TUESDAY,
AUGUST 28

(All meetings are open unless otherwise designated)

Senate

Committee on Appropriations, Subcommittee on Armed Services, executive, on H. R. 5054, defense appropriations, 10:30 a. m., 224 Senate Office Building; full committee, executive, on H. R. 5215, supplemental appropriations, 10:30 a. m., room F-37, Capitol.

Committee on Armed Services, executive, on H. R. 4914, military public works, 10 a. m., 212 Senate Office Building.

Committee on Banking and Currency, Subcommittee on Economic Stabilization, on S. 2006, Export-Import Bank, 10:30 a. m., 301 Senate Office Building.

Committee on Expenditures in the Executive Departments, on S. 1149, reorganization of Department of Agriculture, 10 a. m., 357 Senate Office Building.

Committee on Finance, executive, on H. R. 4473, tax-revision bill, 10 a. m., 312 Senate Office Building.

Committee on Labor and Public Welfare, Subcommittee on Labor and Labor-Management Relations, on S. 1973, to amend National Labor Relations Act with reference to building and construction industry, 10:30 a. m., room P-63, Capitol.

Committee on Post Office and Civil Service, Subcommittee on Manpower, executive, for report on organization and planning future activities, 10 a. m., 135 Senate Office Building.

Select Committee on Small Business, subcommittee, on black market in nickel, 10 a. m., 457 Senate Office Building.

House

No committee meetings scheduled.

Daily Digest

HIGHLIGHTS

Senate debated bill on mutual security.

Senate committees voted to report bills on Export-Import Bank, Canadian registry vessels, and transportation policy, and acted on amendments to tax bill.

Senate

Chamber Action

Routine Proceedings, pages 10967-10970

Bills Introduced: Four bills and two resolutions were introduced, as follows: S. 2071 to S. 2074; and S. J. Res. 97 and S. J. Res. 98.

Page 10967

Bills Reported: Reports were made as follows:

H. R. 3436, authorizing vessels of Canadian registry to transport grain between U. S. ports on the Great Lakes during 1951 (S. Rept. 720);

S. 1899, to define further the national transportation policy, with amendment (S. Rept. 721); and

S. 2006, to increase the lending authority of Export-Import Bank of Washington and to extend the period within which the bank may make loans (S. Rept. 722).

Page 10967

Mutual Security: Senate debated H. R. 5113, to maintain the security and promote the foreign policy and provide for the welfare of the U. S. by furnishing assistance to friendly nations in the interest of international peace and security.

Pages 10970-10978, 10999-11003, 11005

Program for Thursday: Senate recessed at 6:31 p. m. until noon Thursday, August 30, when it will continue on H. R. 5113, mutual security.

Committee Meetings

(Committees not listed did not meet)

APPROPRIATIONS—SUPPLEMENTAL

Committee on Appropriations: In executive session, committee received testimony from Francis Shackelford, counselor for the Army, Karl R. Bendetsen, Assistant Secretary of the Army, and Brig. Gen. A. L. Hamblen, and associates, in justification of supplemental estimates for Government and Relief in Occupied Areas, in connection with the committee's study of H. R. 5215, supplemental appropriations for fiscal year ending June 30, 1952. Committee continues tomorrow.

MILITARY AND NAVAL CONSTRUCTION

Committee on Armed Services: Continuing in executive session, committee received further testimony in support of the enactment of H. R. 4914, to authorize certain construction at military and naval installations, from Thomas K. Finletter, Secretary of Air Force; John A. McCone, Under Secretary of Air Force; Maj. Gen. Patrick W. Timberlake; and Col. Harold R. Maddox, Brig. Gen. Ralph O. Brownfield, and Brig. Gen. Colby M. Myers, all of the Air Force. Committee continues tomorrow.

COTTON

Committee on Armed Services: Task force of the Preparedness Subcommittee continued its hearings on a comprehensive study of the question of stockpiling cotton, with John D. Small, Chairman, Munitions Board; John C. Houston, Vice Chairman for Stockpiling Program; and Maj. Gen. Herman Feldman, Quartermaster General of the Army, discussing aspects of stockpiling of cotton by the Federal Government. Subcommittee continues tomorrow.

EXPORT-IMPORT BANK

Committee on Banking and Currency: In executive session, committee voted to report favorably without amendment S. 2006, to increase the lending authority of Export-Import Bank of Washington and to extend the period within which the bank may make loans.

AGRICULTURE DEPARTMENT REORGANIZATION

Committee on Expenditures in the Executive Departments: Continuing hearings on a revised print of S. 1149, to reorganize the Department of Agriculture, the committee received testimony from six witnesses, as follows: The following four testified generally in support of the objectives of the bill: Dr. D. Howard Doane, representing the U. S. Chamber of Commerce, and chairman of the board, Doane Agricultural Service, St. Louis, Mo.; Guy D. Joserand, Dodge City, Kans.; E. S. Trask,

Snake River Valley Dairymen's Association of Idaho; and Frank J. Brice, Waterbury, Conn., representing the Junior Chamber of Commerce of the U. S.

William B. Wright, representing U. S. Chamber of Commerce, and a member of its natural resources committee, Mary's River Ranch, Deeth, Nev., confined his testimony to section 7 of the committee print dealing with transfer to the Department of Agriculture of the functions of Bureau of Land Management, except as respects mining and mineral resources, and the functions of the Secretary of Interior in relation thereto, stating that the Chamber of Commerce recommends enactment of that section, as amended, to include three suggested recommendations. Dr. William Schoenfeld, Oregon State College, Corvallis, Oreg., discussed sections of the committee print bearing upon agricultural credit and agricultural resource conservation. Committee meets again September 5.

TAX REVISION

Committee on Finance: Committee, in executive session, continued consideration of H. R. 4473, tax-revision bill, taking action on additional amendments to the bill, as follows:

(1) It agreed to extend for two more years the provision in existing law exempting from income tax compensation received by military personnel in combat areas and added a new exemption in the case of personnel wounded in combat areas who are brought back home.

(2) It approved the application of section 22 (b) (9) and (10) of the code, relating to the retirement of indebtedness by corporations for less than par value without recognition of gain (similar to a measure which has previously passed the House).

(3) The following tax treatment of taxable cooperatives was approved: Taxable cooperatives will continue to pay taxes as now provided under existing law with the following exceptions. In the case of patronage dividends deductions will be allowed only if either of the following two conditions are met: (a) The patronage dividends must be paid in cash or merchandise within 75 days after the year in which the patronage occurred; or (b) the patronage dividends must be paid in the form of irrevocable obligations payable within a period of not more than 2 years after the year in which the patronage occurred and the obligations must bear interest at the rate of at least 3 percent payable annually. Such obligations in order to be deductible cannot exceed one-half of the annual profits of the cooperative for the year in which the patronage occurred. In the case of patronage dividends deductible by the cooperative the patron will be required to return in income their face value to the extent that such dividends represent income to the patron. The patrons will not be required to include as income any patronage dividends which are taxable to the cooperatives.

(4) Committee agreed that the exemption provided cooperatives under section 101 (12) of the Internal

Revenue Code shall apply only if the following additional limitations are met: (a) 95 percent of the members of the cooperative are individuals; (b) the total assets of the cooperative, exclusive of inventory, are less than \$100,000; and (c) in the case of business done with the United States, patronage dividends are paid to the United States on the same basis as to members.

In an afternoon session, the committee reached the following agreements:

(1) It agreed to give individual income-tax payers who have used a standard deduction when they filed their return the right to change that option at any time within the period of the statute of limitations and claim itemized deductions. Also taxpayers who had used itemized deductions on their return would be permitted to amend their return and use itemized deductions.

(2) Married individual income-tax payers who filed separate returns would be given the right to change their option and file joint returns any time within the period of the statute of limitations.

(3) The committee agreed to tax mutual savings banks as ordinary corporations but amounts paid to depositors or credited to their account are to be allowed as deductions in arriving at taxable income. As in the case of commercial banks deduction for amounts to meet losses on loans based on actual experience over a 20-year period would be permitted. In computing the net income of any mutual savings bank, there would be allowed as a deduction from gross income, in addition to deductions otherwise provided, any amount paid, within the taxable year, to the United States or to any instrumentality thereof exempt from Federal income taxes, in repayment of indebtedness incurred prior to September 1, 1951.

(4) Savings and loan associations, including Massachusetts cooperative banks and Federal savings and loan associations, would be taxed as ordinary corporations but a deduction would be allowed for dividends or interest paid to depositors. A special deduction would also be allowed for amounts placed in bad-debt reserves based upon experience over a prior period.

(5) It accepted in lieu of the House-approved provision, the 6½-percent life-insurance tax formula proposed by the majority of the life-insurance companies, on a 1-year basis.

(6) The corporate rate increases would become effective as of January 1, 1951.

Committee continues tomorrow.

CRIME, CANADIAN REGISTRY VESSELS, AND TRANSPORTATION POLICY

Committee on Interstate and Foreign Commerce: In executive session, committee voted to report without amendment H. R. 3436, authorizing vessels of Canadian registry to transport grain between U. S. ports on the Great Lakes during 1951, and with perfecting amendment S. 1899, to define further the national transportation policy.

Thursday, August 30, 1951

Daily Digest

HIGHLIGHTS

Senate debated bill on mutual security.

Senate committees acted on amendments to tax bill and approved crime report.

Senate

Chamber Action

Routine Proceedings, pages 11009-11011

Bills Introduced: Eleven bills were introduced, as follows: S. 2075 to S. 2085. Page 11010

Bills Reported: Reports were made as follows:

S. 2079, contributions to UN International Children's Emergency Fund (S. Rept. 723); and

S. 2085, to amend Revised Statutes with respect to underwriting and dealing in securities issued by Central Bank for Cooperatives (S. Rept. 724). Page 11010

Veto Message: President's message vetoing S. 827, a private bill, was received, referred to Committee on the Judiciary, and ordered to be printed as S. Doc. 68. Pages 11089-11090

Mutual Security: Senate continued debate on H. R. 5113, to maintain the security and promote the foreign policy and provide for the welfare of the U. S. by furnishing assistance to friendly nations in the interest of international peace and security, reaching the following unanimous-consent agreement:

Beginning at 10 a. m. on Friday, August 31, debate on each amendment to the bill will be limited to 30 minutes, equally divided, except as to an amendment for one-half-billion-dollar reduction and an amendment for 1-billion-dollar increase, on each of which amendments debate will be limited to 2 hours, equally divided; that all amendments are to be germane except for one to be proposed on the St. Lawrence Seaway, on which debate will be limited to 2 hours, equally divided; and that debate on passage of the bill will be limited to 1 hour. Pages 11011-11089

Nominations: Two civilian nominations were received. Page 11090

Program for Friday: Senate recessed at 11:54 p. m. until 10 a. m. Friday, August 31, when it will continue on H. R. 5113, mutual security.

Committee Meetings

(Committees not listed did not meet)

APPROPRIATIONS—SUPPLEMENTAL

Committee on Appropriations: Committee, in executive session, received further testimony from Francis Shackelford, counselor for the Army; Karl R. Bendetsen, Assistant Secretary of the Army; and Brig. Gen. A. L. Hamblen, and associates, in justification of supplemental estimates for Government and Relief in Occupied Areas, in connection with the committee's study of H. R. 5215, supplemental appropriations for fiscal year ending June 30, 1952. Committee continues tomorrow.

MILITARY AND NAVAL CONSTRUCTION

Committee on Armed Services: Committee continued its hearings in executive session on H. R. 4914, to authorize certain construction at military and naval installations, receiving testimony from the following witnesses: Senator Welker; Frank Pierson, secretary of the chamber of commerce, Durham, N. C.; George Geoghegan, Raleigh-Durham Airport Authority; Kingsland Dunwoody, chairman of the board of selectmen, Newington, N. H.; Cecil M. Neal, former mayor of Portsmouth, N. H.; Frank H. Altdorffer, G. T. Storb, and N. F. Huth, all of Lancaster, Pa.; Lyle Garlock, Office of the Assistant Secretary of Defense; and Maj. Gen. G. J. Nold, Assistant Chief of Engineers. Hearings continue tomorrow.

COTTON

Committee on Armed Services: Task force of the Preparedness Subcommittee continued its hearings on a comprehensive study of the question of stockpiling cotton, with Vice Adm. Albert G. Noble, Chief of Naval Material, and W. J. McNeil, Assistant Secretary of Defense (Comptroller), discussing aspects of stockpiling of cotton by the Federal Government. Subcommittee adjourned subject to call.

PRICE AND WAGE STABILIZATION

Committee on Banking and Currency: Charles E. Wilson, Director of Defense Mobilization, and Michael V. DiSalle, Director of Price Stabilization, appeared before the committee to testify in support of amendments to price and wage stabilization title (title IV) of the Defense Production Act of 1950, as amended (bills being considered by the committee are S. 1928, S. 2048, and S. 2073), as recommended by the President. Committee meets again tomorrow.

D. C. CRIME

Committee on the District of Columbia: The following witnesses appeared before the subcommittee to express their views on H. R. 4141, to provide for the more effective prevention, detection, and punishment of crime in the D. C.: Chief Judge John Biggs, Third Judicial Circuit, U. S. Court of Appeals; Judge Albert Maris, Third Judicial Circuit, U. S. Court of Appeals; John Russell Young, President, Board of Commissioners of D. C.; Vernon E. West, Corporation Counsel of D. C.; Major Robert J. Barrett, Superintendent of Police; Inspector Walter Storm, Assistant Superintendent of Police; Capt. Earl Hartmen, Metropolitan Police Department; Inspector Robert Murray, Detective Bureau, Metropolitan Police; John Woog, representing Representative Davis, former chief investigator and counsel for Davis Crime Committee; Joseph Schrade, Waldon, Mass.; James V. Bennett, Director of Federal Bureau of Prisons; Morris Fay, U. S. District Attorney; Col. Campbell Johnson, D. C. Parole Board; Commissioner Cyril S. Lawrence; Bourbon A. Dawes, D. C. Hotel Association; Herbert P. Leeman, president, Federation of Citizens Associations; Mrs. Ernest Howard, Federation of Women's Clubs; and Clark F. King, Assistant Corporation Counsel.

TAX REVISION

Committee on Finance: In executive session, committee continued its consideration of H. R. 4473, tax-revision bill, taking the following actions on the bill:

(1) It agreed that all excise-tax rate increases provided by the bill would expire on December 31, 1953.

(2) It agreed to House-approved provisions in the bill increasing excise taxes: (1) on alcoholic beverages, including distilled spirits, beer, and wines; (2) on cigarettes; (3) on gasoline; and (4) on passenger automobiles, trucks, busses, and automotive parts.

(3) Committee adopted provisions of the bill on excise taxes as approved by the House: (1) on rubber

tires; (2) on electric, gas, and oil appliances, except shavers are omitted, and vacuum cleaners, washing machines, and garbage-disposal units are added; (3) on Diesel fuel (with amendment providing that person placing the fuel in the motor-vehicle tank is responsible for the collection of the tax); (4) on exempting navigation, detection, and communication receivers sold to the U. S.; (5) and on repealing the tax on electrical energy.

(4) In the case of refrigerators, the committee agreed to exempt sales of apparatus to a wholesaler or a jobber where he resells the apparatus to a manufacturer.

(5) An amendment was adopted decreasing excise on plug and twist tobacco from 18 to 10 cents a pound.

(6) In the case of sporting goods, provisions of the present law were restored, but sales to primary and secondary private and parochial schools were exempted.

(7) The 20-percent tax on fountain pens, ball-point pens, and mechanical pencils, approved by the House, were reduced to 10 percent.

Committee continues tomorrow.

CIVIL-SERVICE RECRUITMENT

Committee on Post Office and Civil Service: Subcommittee No. 1 (Civil Service) heard the following witnesses testify in opposition to the enactment of S. 1135, to provide a recruitment procedure for the competitive civil service in order to insure selection of personnel on the basis of open competition and merit: Clarence N. Bruce, accompanied by Louis J. Doyle, both representing the Post Office Department; Col. Charles R. Stengel, American Federation of Government Employees; Luther Steward, president, National Federation of Federal Employees; Miles D. Kennedy, director, national legislative commission, American Legion; and J. Robert Conroy, VFW.

The following testified in support of the bill: Robert L. L. McCormick, director of research, Citizens Committee for the Hoover Report, accompanied by Dr. Arthur S. Flemming, Director of Manpower Division, Office of Defense Mobilization; W. Roy Widdoes, director of industrial relations, Lukens Steel Co., Coatesville, Pa.; and James R. Watson, executive director, National Civil Service League, New York City.

INTERSTATE CRIME

Special Committee To Investigate Organized Crime in Interstate Commerce: In executive session, committee concluded and agreed to file with the Senate its final report on interstate crime. The report will be released tomorrow afternoon.

Daily Digest

HIGHLIGHTS

Senate passed bill on mutual security.

Senate committees voted to report bills on military and naval construction and on subpena of alcoholic-tax evidence; Finance Committee acted on amendments to tax bill, and on time for filing corporate excess-profits tax returns.

See Congressional Program Ahead.

Senate

Chamber Action

Routine Proceedings, pages 11091-11093

Bills Introduced: Seven bills and one resolution were introduced, as follows: S. 2086 to S. 2092; and S. J. Res. 99.

Page 11093

Bills Reported: Reports were made as follows:

Final report of Special Committee To Investigate Organized Crime in Interstate Commerce (S. Rept. 725); and

S. 2091, amending Federal Farm Loan Act by repealing provisions for additional U. S. subscriptions to capital stock of Federal Land Banks (S. Rept. 726).

Page 11092

Mutual Security: By 61 yeas to 5 nays, Senate passed, with amendments, H. R. 5113, to maintain the security and promote the foreign policy and provide for the welfare of the U. S. by furnishing assistance to friendly nations in the interest of international peace and security, as amended by adoption of committee amendment in the nature of a substitute therefor, after taking the following actions on amendments offered to the committee substitute:

Adopted: Gillette amendment to eliminate section granting President authority to make 10-percent transfer of any fund in the act to any other fund therein; by 36 yeas to 34 nays, Dirksen amendment reducing by \$250 million authorized funds for economic aid to Europe; on division, Douglas amendment increasing by \$37.5 million authorized funds for aid to Africa and Near East and, by \$10 million each, funds authorized for resettlement of Palestine Arabs and for relief of refugees coming into Israel; Smathers amendment to transfer \$6 million from UN Korean Reconstruction Agency to the point 4 program in South America; by 36 yeas to 31 nays, Benton amendment to discourage

cartel practices in Europe and to encourage development and strengthening of free labor unions there (after rejecting, by 4 yeas to 61 nays, Humphrey amendment thereto eliminating words "readily feasible"); and by 44 yeas to 25 nays, Dworshak amendment reducing by \$37 million authorized funds for assistance to European nations.

Rejected: By 31 yeas to 41 nays, Dirksen amendment to reduce by \$500 million authorization of ECA funds for European assistance (motion to lay on table a motion to reconsider this vote was adopted); by 17 yeas to 56 nays, Green amendment to increase by \$1 billion authorization of funds in the act (as recommended by administration); on division, Lehman amendment to increase by \$5 million funds authorized for European repatriation; on division, Smathers amendment to transfer \$6.75 million from UN Korean Reconstruction Agency to the point 4 program in South America (a motion to reconsider the vote was later rejected); by 18 yeas to 50 nays, modified Kefauver amendment to set up an Administrator to carry out purposes of act; by 23 yeas to 43 nays, Long amendment to reduce by \$250 million authorized funds for military assistance to Europe; by 25 yeas to 41 nays, modified Case amendment encouraging formation of Federation of Free States of Europe; by 29 yeas to 38 nays, Brewster amendment including Western Germany, Spain, and Yugoslavia among nations to receive assistance under the act; Dworshak amendment reducing by \$37.5 million authorized funds for assistance to European nations; Douglas amendment increasing from 5 to 10 percent permitted transfers of authorized appropriations for European assistance; by 22 yeas to 45 nays, Kefauver amendment increasing by \$249,650,000 authorized funds for assistance to European nations; and, by 32 yeas to 35 nays, Capchart motion to reconsider vote by which

Benton amendment on European cartels had been adopted.

Senate requested a conference on the bill, and appointed as conferees Senators Connally, Green, McMahon, Russell, Wiley, Smith of New Jersey, and Saltonstall.

Pages 11093-11172

Military and Naval Construction: Committee on Armed Services was authorized to report during recess H. R. 4914, to authorize certain construction at military and naval installations.

Page 11092

Naval Vessels: Following passage of H. R. 5113, mutual security bill, H. R. 3463, authorizing the transfer of certain naval vessels, the unfinished business, was automatically placed before the Senate.

Page 11172

Confirmations: One nomination in the Coast and Geodetic Survey and twenty-one in the U. S. Coast Guard were confirmed.

Page 11174

Nominations: Two civilian nominations were received.

Page 11174

Program for Tuesday: Senate adjourned at 10:31 p. m. until noon Tuesday, September 4, when it will transact no business, and go over until noon Wednesday. (See Congressional Program Ahead.)

Committee Meetings

(Committees not listed did not meet)

APPROPRIATIONS—SUPPLEMENTAL

Committee on Appropriations: In executive session, committee received testimony from Henry A. Byroade, Director, and Irving S. Schwartz, Assistant Executive Director, both of the Bureau of German Affairs, and Edward B. Wilber, budget officer, State Department, accompanied by assistants, in justification of funds for government in occupied Germany, in connection with the committee's study of H. R. 5215, supplemental appropriations for fiscal year ending June 30, 1952.

Committee meets again Tuesday, September 4.

MILITARY AND NAVAL CONSTRUCTION

Committee on Armed Services: In executive session, committee voted to report with numerous amendments H. R. 4914, to authorize certain construction at military and naval installations.

PRICE AND WAGE STABILIZATION

Committee on Banking and Currency: Eric Johnston, Director of Economic Stabilization, appeared before the committee to testify in support of amendments to the price and wage stabilization title (title IV) of the Defense Production Act of 1950, as amended, as recommended by the President (pending bills are S. 1928, S. 2048, and S. 2073). In an afternoon session, Willard L. Thorpe, Assistant Secretary of State, and Clarence J. McCormick, Under Secretary of Agriculture, testified

in favor of the repeal of section 104 of the act, relative to import control of fats and oils. Committee recessed until September 10.

TAX REVISION—ALCOHOLIC-TAX EVIDENCE AND EXCESS-PROFITS TAX

Committee on Finance: In executive session, committee voted to report with amendment H. R. 4014, relating to the applicability of alcoholic-tax laws (to confer right upon Internal Revenue Commissioner to subpoena documentary evidence and witnesses as now exercised by FTC); the amendment would authorize a grant of extension of time up to November 15, 1951, to file corporate excess-profits tax returns (contents of S. J. Res. 97).

Following two executive sessions lasting throughout the day, for consideration of H. R. 4473, tax-revision bill, the chairman announced further actions on the bill, as follows:

(1) It agreed to House-approved provisions of the bill: (a) making changes in the base of tax on toilet preparations; (b) increasing tax on coin-operated gaming devices from \$150 to \$250; (c) excluding from cabaret tax incidental refreshments served at ballrooms, etc.; (d) applying the admissions tax to the actual amount charged rather than the established price; (e) and a similar but somewhat more restrictive provision than that of the House, exempting certain admissions from excise tax where the profits inure to churches, schools, etc. (symphonies and operas would be among the exempt organizations; exemptions are also provided for county fairs, civic concerts, and municipal swimming pools).

(2) In case of jewelry tax, it imposed a 10-percent tax on cigarette, cigar, and pipe lighters instead of the 20 percent by House version.

(3) No changes were made in present tax on furs.

(4) In the case of the tax on the transportation of property, the committee rejected a House provision which would have imposed this tax on the transportation of oil by barge where shippers transport their own oil or where less than a fair charge is made. In the case of the movement of earth, rock, etc., by contractors within or adjacent to a construction project this tax would not apply.

(5) In the case of the transportation of persons, it was agreed to exclude from application of the tax, transportation by a vessel making an intermediate stop in the United States, Canada, or Mexico on a trip beginning or ending outside the northern portion of the Western Hemisphere if the vessel is not authorized both to discharge and to take on passengers at the intermediate stop. The House provision which excludes fishing trips from the tax on the transportation of persons was also approved.

(6) Excise tax on cable and radio dispatches was reduced from 25 to 15 percent; House would reduce rate from 25 to 20 percent.

(7) Tax rate on photographic apparatus was reduced from 25 to 15 percent, without change in the present 15-percent rate on film or in the base of either tax; House would increase films from 15 to 20 percent and reduce tax on apparatus from 25 to 20 percent. House would remove business cost items from bases of both of these taxes.

(8) Committee did not accept the House provision raising bowling alley and billiard- and pool-table tax.

(9) It agreed to exempt industrial-type direct motor-driven fans from the tax on electric, gas, and oil appliances.

Committee continues Wednesday, September 5.

HIGHWAYS

Committee on Public Works: Subcommittee on Public Roads held hearings on two bills, with various witnesses

testifying, as follows: J. A. Anderson, president, American Association of State Highway Officials, and chairman of the Virginia State Highway Commission, and Elmer B. Staatz, Assistant Director, Bureau of the Budget, testified in support of the enactment of both S. 2025, to increase amount available as an emergency relief fund for the repair or reconstruction of highways and bridges damaged by floods or other catastrophes, and S. 1956, to provide funds for highway construction and maintenance (access roads for defense).

The following witnesses testified in support of S. 1956: Senator Watkins; C. M. Granger, Forest Service, Agriculture Department; and Al Rochester, city councilman of Seattle, Wash.

Subcommittee adjourned subject to call.

House of Representatives

Chamber Action

The House was not in session today. Its next meeting will be held on Wednesday, September 12, at 12 o'clock noon.

Committee Meetings

No committee meetings were held.

CONGRESSIONAL PROGRAM AHEAD

Senate Chamber

(Week of September 3-8)

Senate will be in recess on Labor Day, September 3. It will meet but transact no business on Tuesday, September 4; and on Wednesday it will resume consideration of H. R. 3463, authorizing the transfer of certain naval vessels (which had been temporarily put aside on August 16 until disposition of Mutual Security Act), to be followed by consideration of H. R. 4914, military and naval construction; S. 1065 and S. 1335, postal rate bills; S. 355, increasing postal employees' compensation; and the Armed Services appropriations bill.

Senate Committees

Committee on Agriculture and Forestry: September 5, executive, on calendar.

Committee on Appropriations: September 4, executive, on H. R. 5215, supplemental appropriations, 10:30 a. m., room F-37, Capitol.

Committee on Expenditures in the Executive Departments: September 5-7, on S. 1149, reorganization of Agriculture Department.

Committee on Finance: September 5, executive, on H. R. 4473, tax revision.

Committee on Interstate and Foreign Commerce: September 5 and 6, Subcommittee on Communications, on S. J. Res. 76 and S. 1579, to establish a National Citizens Advisory Board on Radio and Television.

Committee on Labor and Public Welfare: September 4, Subcommittee on Labor and Labor-Management Relations, on S. 1973, to amend NLRA with reference to building and construction industry, 10:30 a. m., room P-63, Capitol.

Committee on Post Office and Civil Service: September 5, Subcommittee No. 2, on S. 1148 and S. 1160, Hoover Commission report relating to Post Office Department; September 6 and 7, Subcommittee No. 1, on report of Civil Service Commission and Budget Bureau proposals on change of overtime laws.

House Chamber

(Week of September 3-8)

In recess until September 12.

House Committee

Select Committee To Investigate the Educational and Training Program Under the GI Bill: September 5, hearings on VA policy regarding procurement of books, tools, and supplies, 10 a. m., 445 Old House Office Building.

Monday, September 10, 1951

Daily Digest

HIGHLIGHTS

Senate worked on defense appropriations bill.

Senate Finance Committee acted on provisions of tax bill, and Banking and Currency announced further study of Defense Production amendments.

Senate

Chamber Action

Routine Proceedings, pages 11291-11302

Bills Introduced: Five bills and two resolutions were introduced, as follows: S. 2105 to S. 2109; S. J. Res. 101; and S. Res. 203.

Pages 11292, 11300

Defense Appropriations: Senate began consideration of H. R. 5054, defense appropriations for 1952, taking the following action on amendments thereto: Adopted most committee amendments, deferring action on several until tomorrow, and agreeing that any amendment adopted today may be considered to be open for amendment tomorrow without a motion for reconsideration. In addition to these actions, Senate adopted two O'Mahoney amendments (to committee amendments), both of a perfecting and clarifying nature.

Pages 11302-11339

Nominations: 195 civilian nominations, including 192 in the Public Health Service, and 364 Air Force nominations were received.

Pages 11339-11342

Program for Tuesday: Senate recessed at 6:25 p. m. until noon Tuesday, September 11, when it will continue on H. R. 5054, defense appropriations for 1952, to be followed by S. 355, postal employees' compensation, and S. 622, Government employees' compensation.

Committee Meetings

(Committees not listed did not meet)

APPROPRIATIONS—SUPPLEMENTAL

Committee on Appropriations: Committee continued hearings in executive session on H. R. 5215, supplemental appropriations for fiscal year ending June 30, 1952, receiving testimony from the following witnesses, accompanied by their assistants, all of the Interior Department, in justification of 1952 estimates for their respective divisions: Robert E. Day, for acting executive assistant to the Secretary, and L. W. Smith, administrative officer, Defense Production Staff, on departmental

funds; Charles W. Conner, Administrator, Defense Solid Fuels Administration; James F. Fairman, Administrator, Defense Electric Power Administration; Wilburn C. Schroeder, Acting Administrator, Defense Minerals Administration; Maurice Rattray, Deputy Administrator, Defense Fisheries Administration; and A. P. Frame, Assistant Deputy Administrator, Petroleum Administration for Defense. Hearings continue tomorrow.

DEFENSE PRODUCTION, FDIC, AND RFC

Committee on Banking and Currency: In executive session, committee agreed to set up three special subcommittees, consisting of five members each, to consider proposed amendments to the Defense Production Act of 1950, as amended, as follows:

A special subcommittee, headed by Senator Fulbright, to consider proposed repeal of fats and oil amendment (S. 2104), which will begin hearings on Thursday, September 13; a special subcommittee, headed by Senator Robertson, to consider an amendment to clarify the so-called Capehart amendment dealing with price ceilings for manufacturers and processors (S. 2092), which will begin hearings on Thursday, September 13; and a special subcommittee, headed by Senator Maybank, to consider proposed repeal of prohibition against slaughter quotas on livestock (S. 1928). Committee deferred action on the President's request for repeal of the Herlong amendment (on customary mark-up on retailers) pending consultation with the House Banking and Currency committee.

It was agreed that the full committee will meet on September 20 to consider disposition of S. 2092 and S. 2104; on September 24, it will consider final disposition of S. 1928.

It was agreed that the Subcommittee on Securities, Insurance, and Banking would hold hearings, date unannounced, on the nomination of Maple T. Harl, Chairman, and H. Earl Cook, Director, to reappointment to the Federal Deposit Insurance Corporation. The subcommittee, at the same time, will consider the operations

of the FDIC as they affect powers of State bank commissioners.

The nomination of Jess Larson to be Defense Procurement Administrator was ordered reported favorably to the Senate.

The committee agreed to refer to the Investigations Subcommittee of the Committee on Expenditures in the Executive Departments, RFC Subcommittee staff work, dealing with a paper company and a lumber company.

AGRICULTURE DEPARTMENT REORGANIZATION

Committee on Expenditures in the Executive Departments: Committee continued hearings on a revised print of S. 1149, to reorganize the Department of Agriculture, with the following witnesses expressing their views on the bill: George Heidrich, area vice president, Charles Town, W. Va., and Clay Stackhouse, vice president, national association, Wakeman, Ohio, both representing the National Association of Soil Conservation Districts; Paul Schoen, executive secretary, Forest Farmers Association; and John J. Riggle, representing the National Council of Farmer Cooperatives. Committee continues tomorrow.

TAX REVISION

Committee on Finance: Committee continued marking up for reporting to the Senate H. R. 4473, tax-revision bill, taking further actions on the bill, as follows:

(1) It reconsidered its previous action on both tax-exempt and taxable cooperatives, and agreed to a substitute, revising section 101 (12) of code to provide that cooperatives exempted under this section are to be taxable on all earnings not definitely allocated to the accounts of patrons. The Internal Revenue Commissioner "is to require reporting on patronage dividends which are allocated to the accounts of patrons in amounts of \$100 or more, and is to have the discretion to require reporting on amounts of less than \$100," and

it agreed that patronage dividends are to be subject to the same withholding requirements as corporate dividends.

(2) The committee agreed to an amendment to provide a percentage depletion allowance of 10 percent for magnesium compounds.

(3) The Treasury and committee staff were instructed to study and report by April 1, 1952, on possibility of withholding against reserves allocated and on methods used in allocating reserves and the form and character of the certificates issued to the end that one tax—not a double tax—may be actually collected on such allocated reserves.

On Saturday, September 8, the committee took the following actions on amendments to the bill:

(1) It reconsidered its action to remove from the bill the 2 cents per gallon tax on Diesel fuel, added by the House bill, pending further study. It decided to include in the base of the 15 percent manufacturers' tax on film, the processing of black and white film into colored film, where this processing is not presently subject to tax.

(2) It reconsidered its previous action with respect to tax on sporting goods and agreed to raise the rate from 10 percent to 15 percent on the manufacturers' price, but exempted from that tax 17 items in the base of the present tax, specifying numerous other items which would be subject to the tax.

(3) In the case of electric, gas, and oil appliances, sold through dealers by the direct selling of services of the manufacturer, the committee agreed that the Commissioner of Internal Revenue is to determine and apply only the fair, competitive manufacturer's price.

(4) Admissions to exhibitions of gardens and homes, where provided as a historic garden week and where the profits do not inure to private individuals, would be exempted from tax.

Committee meets again tomorrow.

House of Representatives

Chamber Action

The House was not in session today. Its next meeting will be held on Wednesday, September 12, at 12 o'clock noon.

COMMITTEE MEETINGS FOR TUESDAY, SEPTEMBER 11

(All meetings are open unless otherwise designated)

Senate

Committee on Appropriations, executive, on H. R. 5215, supplemental appropriations, 10:30 a. m., room F-37, Capitol; executive, on H. R. 4496, legislative appropriations, 2 p. m., room F-37, Capitol.

Committee on Expenditures in the Executive Departments, on S. 1149, reorganization of Agriculture Department, 10 a. m., 357 Senate Office Building.

Committee Meetings

No committee meetings were held.

Committee on Finance, executive, on H. R. 4473, tax revision bill, 10 a. m., 312 Senate Office Building.

Committee on the Judiciary, subcommittee, on S. 1334, private bill, 10:30 a. m., 424 Senate Office Building.

Committee on Labor and Public Welfare, Health Subcommittee, on S. 1186 (H. R. 3298), to amend Food and Drug Act, 10 a. m., room P-63, Capitol.

Committee on Post Office and Civil Service, subcommittee, executive, on Federal manpower policy, 10 a. m., 135 Senate Office Building.

House

No committee meetings scheduled.

Tuesday, September 11, 1951

Daily Digest

HIGHLIGHTS

Senate worked on defense appropriations.

Senate Appropriations Committee voted to report legislative appropriations,
and Finance Committee concluded work on tax bill.

Senate

Chamber Action

Routine Proceedings, pages 11343-11348

Bills Introduced: Five bills and three resolutions were introduced, as follows: S. 2110 to S. 2114; and S. Res. 204 to S. Res. 206. Pages 11344, 11347-11348

Bills Reported: One report was made as follows: S. Res. 204, increasing by \$10,000 limitation and expenses by Committee on Appropriations (no written report)—referred to Committee on Rules and Administration. Page 11344

Defense Appropriations: Senate continued consideration of H. R. 5054, defense appropriations for 1952, adopting two of the committee amendments on which action had been temporarily deferred, and continued unanimous consent agreement that any amendment so far adopted may be considered to be open for amendment without motion for reconsideration. Pages 11351, 11360-11367, 11369-11380

Nominations: 27 civilian, 179 Navy, and 1,396 Air Force nominations were received. Pages 11380-11386

Program for Wednesday: Senate recessed at 5:27 p. m. until noon Wednesday, September 12, when it will continue on H. R. 5054, defense appropriations for 1952.

Committee Meetings

(Committees not listed did not meet)

APPROPRIATIONS—RFC

Committee on Appropriations: Committee heard W. Stuart Symington, Administrator, and Peter I. Bukowski, Deputy Administrator, and assistants, all of the RFC, testify in justification of 1952 budget estimates for the RFC, in connection with the committee's study of H. R. 5215, supplemental appropriations for fiscal year ending June 30, 1952. Hearings continue tomorrow.

APPROPRIATIONS—LEGISLATIVE

Committee on Appropriations: In executive session, committee voted to report with amendments H. R. 4496, to provide 1952 appropriations for the legislative branch of the Government, including the Congress, Library of

Congress, Architect of the Capitol, GPO, and Botanical Gardens. The report will be filed tomorrow.

AGRICULTURE DEPARTMENT REORGANIZATION

Committee on Expenditures in the Executive Departments: Committee continued its hearings on a revised print of S. 1149, to reorganize the Department of Agriculture, receiving testimony from Secretary of Agriculture Charles F. Brannan, accompanied by the Under Secretary, Assistant Secretary, and the heads of the various bureaus in the Department. Mr. Brannan reviewed progress of organizational improvements in the Department, pointing out that "the Department supports those provisions of the proposed bill which would give the Secretary adequate authority to reorganize and direct the full scope of the Department's activities." He favored additional help in the form of an Assistant Secretary and an Administrative Assistant Secretary, but opposed the provisions which would circumscribe the Secretary's authority to deal effectively with organizational matters. Hearings continue tomorrow.

LITHOFOLD CORP. INVESTIGATION

Committee on Expenditures in the Executive Departments: Investigations Subcommittee met in executive session in connection with its study of the American Lithofold Corp., St. Louis, Mo., to receive testimony by Robert J. Blauner, president, and Cecil A. Green, both of the American Lithofold Corp., St. Louis, Mo. Subcommittee will meet again in open session on this subject on Thursday.

TAX REVISION AND MARINE INSURANCE

Committee on Finance: Committee concluded marking up for reporting to Senate H. R. 4473, tax-revision bill, but it will meet again Friday for review of the final drafted language.

Actions taken by the committee on the bill today are as follows:

(1) It agreed (a) to include household-type exhaust and blower kitchen fans in 10 percent tax on electric, gas, and oil appliances; (b) that 25 percent tax on long-distance telephone calls will not apply to or from combat areas where one of the parties is a member of the armed forces; (c) that those dying in combat zones or

from wounds received in combat zones are to be exempt from estate taxes and relieved of income tax due at time of death in same manner as provided in World War II; (d) that levy of the 10 percent excise tax on cigarette lighters be at manufacturers' level instead of retail; (e) that works of art owned by a nonresident loaned to U. S. public galleries or museums are to be exempt from estate tax if the nonresident dies while they are on loan here; and (f) raised from \$500 to \$600 the amount which an individual can earn and still be a dependent.

(2) Committee reconsidered head-of-household provision and agreed to exclude a descendent of a step-child from the list of relatives with respect to which partial splitting can be obtained.

(3) It adopted technical estate tax amendments respecting reversionary interests and retention of life interest.

(4) It agreed to various technical excess profits tax amendments, largely relating to new corporations, growth formula, inadmissible assets, changes in products during base period, abnormalities, railroad lessee and lessor corporations regulated public utility credit, taxable exchanges, fees paid by farm subsidiaries, and exempt excess output of mines.

The committee ordered reported without amendment H. R. 2562, to require that a marine insurance company subject to excess-profits tax shall consider 50 percent of its reserves as equity capital in computing the tax under equity-capital method.

PRIVATE BILL

Committee on the Judiciary: Subcommittee held routine hearings on S. 1334, a private bill.

FOOD AND DRUG

Committee on Labor and Public Welfare: Subcommittee on Health heard the following proponent witnesses express their views on S. 1186 (H. R. 3298), to amend the Food and Drug Act with respect to permitting oral prescriptions for certain drugs and requiring written prescriptions for certain other groups of drugs: George P. Larrick, Deputy Commissioner of Food and Drug Administration; and Ray S. Warnack and Herman S. Waller, both of National Association of Retail Drug-gists. Hearings continue tomorrow.

FEDERAL MANPOWER

Committee on Post Office and Civil Service: Subcommittee on Federal Manpower Policies, in executive session, agreed to the introduction of an original resolution extending until March 31, 1952, the authority provided for in S. Res. 53, to provide for investigation of personnel needs and practices of the Federal Government. It also agreed to request an additional \$225,000 for expenses of the subcommittee.

The subcommittee discussed at some length what it has already done in its investigation of the Federal manpower policy, and what needs to be done.

House of Representatives

Chamber Action

The House was not in session today. Its next meeting will be held on Wednesday, September 12, at 12 o'clock noon.

Committee Meetings

No committee meetings were held.

COMMITTEE MEETINGS FOR WEDNESDAY, SEPTEMBER 12

(All meetings are open unless otherwise designated)

Senate

Committee on Agriculture and Forestry, executive, on H. R. 4475, tobacco adjustments, the nomination of Gus Geissler, of North Dakota, to be member of Board of Directors of CCC, and other calendar business, 10:30 a. m., 324 Senate Office Building.

Committee on Appropriations, executive, on H. R. 5215, supplemental appropriations, 10:30 a. m., room F-37, Capitol.

Committee on Armed Services, subcommittee, on S. 234, water-supply facilities at San Diego, 10:30 a. m., 212 Senate Office Building; subcommittee, executive, on stockpiling of cotton, 2:30 p. m., room F-39, Capitol.

Committee on the District of Columbia, executive, on calendar, 3 p. m., room P-38, Capitol.

Committee on Expenditures in the Executive Departments, on S. 1149, reorganization of Agriculture Department, 10 a. m., 357 Senate Office Building.

Committee on Interstate and Foreign Commerce, executive, on procedure under the crime resolution (S. Res. 129), 10 a. m., room G-16, Capitol.

Committee on Labor and Public Welfare, Subcommittee on Health, on S. 1186 (H. R. 3298), to amend Food and Drug Act, 10 a. m., room P-63, Capitol.

Committee on Post Office and Civil Service, subcommittee, on S. 1135, Federal Personnel Recruitment Act of 1951, 9:30 a. m., 135 Senate Office Building.

Committee on Rules and Administration, executive, on calendar, 10 a. m., 104-B Senate Office Building.

House

Committee on Interstate and Foreign Commerce, on H. R. 910, to amend the Public Health Service Act so as to provide a program of grants and scholarships for education in the field of nursing, 10 a. m., 1334 New House Office Building.

Joint Committee

Joint Committee on Atomic Energy, executive, to discuss important atomic problems with members of AEC, 10:30 a. m., room F-88, Capitol.

82D CONGRESS }
1st Session }

SENATE

{REPORT
{No. 781

THE REVENUE ACT OF 1951

REPORT
OF THE
COMMITTEE ON FINANCE
UNITED STATES SENATE
TO ACCOMPANY

H. R. 4473
A BILL TO PROVIDE REVENUE,
AND FOR OTHER PURPOSES



SEPTEMBER 18 (legislative day, SEPTEMBER 13), 1951.—Ordered
to be printed

UNITED STATES
GOVERNMENT PRINTING OFFICE
WASHINGTON : 1951

TABLE OF CONTENTS

	Page
I. General statement.....	1
II. Revenue estimates.....	2
III. Changes in the individual income tax.....	3
A. Rate changes.....	3
1. Description.....	3
2. Reasons for the rate changes.....	6
B. Head-of-household provision.....	8
1. Description.....	8
2. Reasons for adopting the head-of-household provision.....	10
C. Distribution of tax burden.....	11
IV. General corporate tax changes.....	12
A. Normal tax and surtax rate changes.....	13
B. Ceiling rate or maximum rate limitation.....	15
C. Capital-gains tax rate.....	17
D. Percentage of the average base period net income taken into account in computing the excess-profits credit.....	18
E. Effective date.....	18
F. Distribution of the burden.....	19
V. Tax-exempt organizations.....	20
A. Cooperatives.....	20
B. Mutual financial institutions.....	22
1. Mutual savings banks.....	22
2. Savings and loan associations.....	26
C. Unrelated business income of government colleges and universities.....	29
D. Educational "feeder" corporations.....	29
VI. Structural changes in the income taxes.....	30
A. Provisions in the House bill also in your committee's bill.....	30
1. Life-insurance companies.....	30
2. Offset of short- and long-term capital gains and losses.....	32
3. Collapsible corporations.....	33
4. Dealers in securities.....	34
5. Gain from sale or exchange of the taxpayer's residence.....	34
6. Percentage depletion.....	37
7. Family partnerships.....	38
8. Gains from sales of livestock.....	41
9. Coal royalties.....	42
10. Expenditures in the development of mines.....	43
11. Venture capital companies.....	45
12. Additional withholding upon agreement by employer and employee.....	46
B. Provisions added by your committee.....	47
1. Additional allowance for certain members of the Armed Forces.....	47
2. Sales of land with unharvested crops.....	47
3. Elections to file joint or separate returns and to use the standard reduction.....	48
4. Pensions.....	48
5. Stock distributions of profit-sharing plans.....	49
6. Death benefits to employees.....	50
7. Termination payments to employees.....	50
8. Restricted stock options.....	50
9. Medical expenses.....	51

VI. Structural changes in the income taxes—Continued

B. Provisions added by your committee—Continued	Page
10. Redemption of stock to pay death taxes.....	51
11. Basis of joint and survivor annuities included in the gross estate.....	52
12. Abatement of income taxes for certain members of the Armed Forces dying in combat zones or as a result of injuries received in such zones.....	52
13. Individuals earning income abroad.....	52
14. War losses.....	53
15. Foreign tax credit for taxes paid by a foreign subsidiary.....	54
16. Postponement of due date for returns of China Trade Act corporations.....	55
17. Application of the intercorporate dividends-received credit in the case of resident foreign corporations.....	56
18. Net operating loss deductions.....	56
19. Corporate reorganizations (spin-offs).....	57
20. Back mail pay of railroads.....	58
21. Income from discharge of indebtedness.....	59
22. Liquidation of corporations.....	60
23. Capital gains of corporations improperly accumulating surplus (sec. 102).....	61
24. LIFO method of accounting.....	61
25. Exchanges and distributions under SEC orders....	62
26. Preferred stock of public utilities.....	62
27. Earnings of dependents.....	62
28. Mine exploration expenditures.....	63
29. Corporate liquidations accompanied by reorganizations.....	63
C. Provisions of the House bill not accepted by your committee.....	65
1. Withholding on dividends, interest, and royalties....	65
2. Surtax exemptions and minimum excess profits tax credits of related corporations.....	67
3. Sale of property to controlled corporations.....	69

VII. Structural changes in the excess profits tax.....	70
1. Extension of growth alternative to new corporations.....	70
2. Special ceiling rate for new corporations.....	72
3. Special relief provision for companies engaged in television broadcasting during the base period.....	74
4. Taxable exchanges.....	75
5. Base period abnormalities.....	76
6. Change in products committed to prior to close of base period....	77
7. Lessor railroad corporations.....	78
8. Exempt excess output of sulfur, potash, metallurgical grade limestone and chemical grade limestone.....	78
9. Reductions in inadmissible assets subsequent to the base period.....	79
10. Inadmissible assets of banks.....	80
11. Dealers in municipal bonds.....	80
12. Regulated public utility credit for intrastate pipelines.....	81
13. Management and technical service fees.....	81
14. Technical amendment relating to new corporations.....	82
15. Technical amendment of growth alternative.....	82
16. Base period of fiscal-year corporations.....	83
17. Consolidated returns.....	83
18. Capital reduction for loans made by parent corporations to subsidiaries.....	84
19. Transitions from World War II production and increases in peacetime capacity.....	84
20. Special relief provision for corporations suffering catastrophes....	85
21. Consolidation of newspapers.....	85

CONTENTS

V

	Page
VIII. Structural changes in estate and gift taxes.....	86
A. Provision in the House bill also in your committee's bill.....	86
1. United States bonds held by nonresident aliens.....	86
B. Provisions added by your committee.....	87
1. Estate taxes of servicemen killed in Korea.....	87
2. Pre-1916 transfers with reversionary interests retained.....	87
3. Reversionary interest of decedents dying prior to February 10, 1939.....	88
4. Decedents dying in 1950 with pre-1931 life estates retained.....	88
5. Reversionary interests in life insurance—Decedents dying after October 21, 1942.....	88
6. Foreign estate tax credit.....	89
7. Works of art loaned by nonresident aliens.....	90
IX. Excise tax changes.....	90
A. Alcoholic beverages.....	91
1. Distilled spirits.....	91
2. Beer.....	92
3. Wines.....	93
4. Occupational taxes on dealers in liquor.....	94
B. Tobacco products.....	95
1. Small cigarettes.....	95
2. Snuff and fine-cut, scrap, plug, and twist chewing tobacco.....	95
C. Manufacturers' excises.....	96
1. Gasoline and Diesel fuel.....	96
2. Passenger cars and motorcycles.....	97
3. Automobile trucks, busses, and truck trailers.....	98
4. Automotive parts and accessories.....	99
5. Tires on toys, etc.....	100
6. Electric, gas, and oil appliances.....	100
7. Navigation receivers sold to the United States Government.....	102
8. Refrigeration equipment.....	102
9. Sporting goods.....	103
10. Photographic apparatus and film.....	103
11. Electrical energy.....	105
12. Fountain pens, ball-point pens, and mechanical pencils.....	105
13. Cigarettes, cigars, and pipe lighters.....	106
D. Retail excises.....	106
1. Cigarettes, cigars, and pipe lighters.....	106
2. Toilet preparations.....	106
E. Transportation and communication excises.....	107
1. Domestic telegraph, cable, and radio messages.....	107
2. Long-distance telephone calls to or from members of the Armed Forces in combat areas.....	108
3. Transportation of persons.....	108
4. Transportation of property.....	109
F. Excises on amusements or recreation.....	110
1. General admissions.....	110
2. Cabarets.....	112
3. Bowling alleys and billard and pool tables.....	112
G. Excises on gambling.....	112
1. Tax on wagers.....	113
2. Occupational tax.....	118
3. Coin-operated gaming devices.....	118
H. Floor stock taxes and refunds.....	119
X. Tax treatment of illegal activities.....	120

REVENUE ACT OF 1951

SEPTEMBER 18 (legislative day, SEPTEMBER 13), 1951.—Ordered to be printed

Mr. GEORGE, from the Committee on Finance, submitted the following

REPORT

[To accompany H. R. 4473]

I. GENERAL STATEMENT

This is the third time your committee has been called upon to consider revenue increases since the outbreak of hostilities in Korea a little over a year ago. The Revenue Act of 1950, which became law on September 23, 1950, increased revenues by \$6.1 billion; the Excess Profits Tax Act of 1950, which became law on January 3, 1951, raised revenues by \$3.9 billion; and it is estimated your committee's bill will increase revenues by \$5.5 billion. In the fiscal year 1952 the bill is expected to increase revenues by \$2.7 billions, raising collections this year to \$64.7 billion.

The revenue raised by these two acts, plus that provided by your committee's bill, will add to Federal revenue \$15½ billion at calendar year 1951 levels of income and in a full year of operation. These three revenue-raising measures on the average will increase the taxes of individuals by 29.0 percent of the amount which would have been due under the prior law, and will raise corporate taxes by 52.9 percent.

Never before has so much additional revenue been raised in so short a period of time. Moreover, these three revenue measures have brought the income tax burdens of most corporate and individual taxpayers near the World War II peak and for many such taxpayers the rates imposed under your committee's bill are above the maximum rates imposed during World War II. As a result your committee has serious doubts as to the feasibility of raising any substantial additional amounts of revenue from income tax sources. This is said although it is recognized that present expenditure estimates made by the executive departments indicate very substantial additions to Federal expenditures next year. In view of this, your committee believes that every effort must be made to reduce expenditures.

Your committee's bill provides tax increases in all of the major tax areas. Individual income taxes for most taxpayers are raised

by 11 percent effective November 1, 1951. The top income tax rate of corporations is raised to 52 percent. The ceiling rate on excess profits taxes is raised to provide a maximum effective income and excess profits tax rate of about 69 percent. Excise taxes also are raised, primarily those on alcoholic beverages, tobacco, gasoline, automobiles, and electric, gas, and oil appliances, and a new tax is imposed on wagering. The bill also provides taxes for certain types of presently exempt income of cooperatives, mutual savings banks, and building and loan associations.

II. REVENUE ESTIMATES

Table I shows the estimated increase in tax liabilities under your committee's bill and under the House bill in a full year of operation, and also the effect of these bills on collections in the fiscal year 1952. Both the increases in liabilities in a full year and the increases in collections in the fiscal year 1952 are shown by major revenue sources.

It is estimated that your committee's bill will increase tax liabilities in a full year of operation by approximately \$5,500 million, and that it will increase collections in the fiscal year 1952 by about \$2,700 million. The increases in collections in the fiscal year 1952 are considerably smaller than the increase in tax liabilities provided by your committee's bill in a full year of operation, both because the changes are not fully effective in the fiscal year 1952, and because collections tend to lag behind the incurring of liabilities. The House bill would increase tax liabilities in a full year of operation by approximately \$7,200 million and would increase collections in the fiscal year 1952 by about \$4,900 million.¹ The major differences from the standpoint of revenue between the House bill and your committee's bill can be accounted for by the fact that your committee did not impose as large increases in individual and corporate taxes as the House, and did not subject corporate dividends to withholding.

The increase in excise tax collections in the fiscal year 1952 assumes that the changes in these taxes become effective as of November 1, 1951, the same date as is provided in your committee's bill for the increases in the individual income tax.

TABLE 1.—*Estimated effect of the House bill and committee bill on tax liabilities in a full year of operation and on collections in the fiscal year 1952*

[In millions]

	House bill		Committee bill	
	Full year effect	Fiscal year 1952 effect	Full year effect	Fiscal year 1952 effect
Individual income tax.....	\$2,847	¹ \$1,652	\$2,367	\$1,379
General corporate tax changes.....	² 2,855	² 1,740	³ 2,060	(³)
Tax-exempt organizations.....	0	0	150	0
Structural changes in the income taxes.....	245	705	—224	—219
Structural changes in the excess profits tax.....	0	0	—120	—120
Structural changes in the estate and gift taxes.....	(*)	(*)	—2	0
Excise tax changes.....	1,252	³ 811	1,275	⁴ 823
Total.....	7,199	4,908	5,506	2,733

*Negligible.

¹ Estimate based on the assumption House provision is effective Nov. 1, 1951, instead of Sept. 1 as provided by the House bill.

² Net increase after allowing for reduction in individual income taxes due to lower dividends.

³ This larger amount is due primarily to the acceleration of collections on withholding.

⁴ Assumes excise tax changes effective Nov. 1, 1951.

¹ This assumes excise and individual income tax increases provided by the House bill are effective November 1, 1951.

III. CHANGES IN THE INDIVIDUAL INCOME TAX

Your committee's bill, in a new rate schedule, provides the lower of the following two increases: An 11-percent increase in present tax rates, or an 8-percent additional tax based on the surtax net income² remaining after the deduction of present taxes. The House bill provided an additional tax equal to 12½ percent of the existing tax for all income brackets except the very highest.

The increase provided by your committee applies only to the tax on ordinary income. The increase under the House bill also applies to the alternative tax on capital gains.

The rate increases under your committee's bill, in effect, are made as of November 1, 1951, the date when increased withholding becomes effective, and are to terminate as of December 31, 1953. Under the House bill the rate increases, in effect, are made as of September 1, 1951, the date when increased withholding was to become effective under that bill, but no termination date was set.

Both your committee's bill and the House bill grant to heads of households some of the benefits of income splitting now enjoyed by married persons. Under your committee's bill they obtain one-quarter of the benefits of income splitting, and under the House bill, one-half. For calendar year taxpayers this head-of-household provision under both bills is to be effective beginning in 1952.

It is estimated that in a full year of operation the individual income tax rate changes provided by your committee's bill will increase liabilities by \$2,394 million and that on the same basis the head-of-household provision provided by your committee's bill will decrease revenues by \$27 million. Thus, it is estimated that the combined effect of these provisions will be to increase liabilities in a full year of operation by \$2,367 million.

Since, in effect, the rate changes made by your committee's bill do not become operative until November 1, and the head-of-household provision for practically all taxpayers will not be effective until January 1, 1952, collections in the fiscal year 1952, ending June 30, 1952, will not fully reflect the increases provided. Therefore, fiscal year 1952 collections under your committee's bill are expected to be increased by only about 58 percent of the \$2,367 million, or by \$1,379 million. Since the rate changes made by the House bill were to be effective as of September 1, 1951, the report by the Committee on Ways and Means of the House estimated collections in fiscal year 1952 would be increased by \$1,947 million. However, had the effective date been November 1, as under your committee's bill, fiscal year 1952 collections under the House bill would have been increased by \$1,652 million.

A. RATE CHANGES

1. Description

For taxable years beginning after October 31, 1951, your committee's bill increases the present individual income taxes by the lower of either about 11 percent of the present combined normal tax and surtax, or approximately 8 percent of the surtax net income³ after present taxes. These increases are to terminate as of December 31, 1953. The House bill increases the present normal tax and surtax

² Surtax net income is income after deductions and exemptions.

³ Surtax net income is income after deductions and exemptions.

in most cases by 12½ percent for taxable years beginning after August 31, 1951. No termination date for this increase is provided. The 11- or 8-percent increase provided by your committee's bill is incorporated in the surtax rate schedule. Under the House bill the 12½-percent increase is to be a separate tax computation, although it is incorporated in the tax table used by those with adjusted gross incomes of \$5,000 or less.

The new surtax table in your committee's bill provides surtax bracket rates ranging from 19.2 percent on the first \$2,000 of surtax net income to 88.7 percent on surtax net income in excess of \$200,000. This, when combined with the flat 3-percent normal tax, gives total rates which range from 22.2 percent on the first \$2,000 of taxable income to 91.7 percent on taxable income in excess of \$200,000. The combined normal tax and surtax rates (including the 12½ percent increase) under the House bill range from 22.5 percent on the first \$2,000 of surtax net income to 94.5 percent on surtax net incomes in excess of \$80,000. Under present law these combined rates range from 20 percent on the first \$2,000 of taxable income to 91 percent on incomes in excess of \$200,000.

Your committee's bill raises the effective rate limitation, or maximum combined normal tax and surtax on total net income, from the 87 percent provided by present law to 88 percent. This effective rate limitation prevents an individual's total net income from being taxed at a rate higher than 88 percent, although the bracket rate on income in excess of \$200,000 permits a portion of an individual's income to be taxed at as high a rate as 91.7 percent. Under the House bill the effective rate limitation is raised to 90 percent.

Your committee's bill also provides a new surtax rate schedule for the calendar year 1951, adding to the present tax burden about one-sixth of the increase provided for 1952 and 1953. Thus, for 1951 the present tax is increased by the lower of either nearly 2 percent of the existing law tax, or by slightly over 1 percent of surtax net income after deducting the present tax. This is roughly the equivalent of making the full 11-percent or 8-percent increase effective November 1, 1951. The House bill which would have been effective as of September 1, 1951, provided a 4-percent increase in the present law tax for calendar year 1951 taxpayers. This would have been roughly the equivalent of making the tax increase effective for the last third of the year. The combined normal tax and surtax bracket rates under your committee's bill for the calendar year 1951 range from 20.4 percent on the first \$2,000 of taxable income to 91.1 percent on taxable income over \$200,000. Under the House bill these rates range from 20.8 percent on the first \$2,000 of taxable income, to 92.56 percent on taxable incomes in excess of \$200,000. Under your committee's bill the effective rate limitation for calendar year 1951 taxpayers is 87.2 percent, and under the House bill, 88 percent.

Your committee's bill also adds a provision which makes inapplicable, for 1951, the penalties and additions to tax for willful failure to make declarations or pay estimated tax with respect to the additional tax imposed on individuals by this bill.

For 1952 and subsequent years and for the last third of 1951 the House bill provides an increase in the alternative tax on capital gains of individuals. For 1952 and subsequent years this increase

is 12½ percent, the same increase as provided for the normal tax and surtax. Applying this to the present 25-percent capital gains tax gives a new rate of 28.125 percent. For the calendar year 1951 the House bill provides a 4-percent increase in the alternative tax on capital gains resulting in a total capital gains tax rate of 26 percent. Under your committee's bill no change is made in the alternative tax on capital gains. Thus, the rate remains at 25 percent both for 1951 and 1952 and subsequent years.

Under both your committee's bill and the House bill new withholding tables are provided to reflect the increased taxes. The withholding in both of these tables is at approximately 20 percent as contrasted to 18 percent in the table in present law. Similar adjustments are made in the percentage method of withholding. A withholding tax rate of approximately 20 percent collects the full amount ordinarily due on the beginning rates provided by your committee's bill and the House bill after allowance for the standard deduction.

Table 2 shows the amount of tax paid at selected net income levels under present law, under the House bill for the calendar year 1952 and subsequent years, and under your committee's bill for the calendar years 1952 and 1953. The tax burden is shown separately for single persons with no dependents, for married couples with no dependents, and for married couples with two dependents. The tax of single persons, of married couples with no dependents and of married couples with two dependents shown in this table differ because the amount of tax paid is shown by net income⁴ classes. Net income for these classes of taxpayers differs from the income on which the tax is based because a single person receives one \$600 exemption, a married couple two \$600 exemptions and a married couple with two dependents four \$600 exemptions. In addition, married couples receive the benefits of income-splitting.

⁴ Net income is income after deductions but before exemptions.

TABLE 2.—Comparison of individual income-tax burdens under present law with those under the House bill and Finance Committee bill for 1952 and 1953

SINGLE PERSON, NO DEPENDENTS

Net income (after deductions but before exemptions)	Amount of tax		
	Present law	House bill	Finance Committee bill
\$800.....	\$40	\$45	\$44
\$1,000.....	80	90	89
\$2,000.....	280	315	311
\$3,000.....	488	549	542
\$4,000.....	708	797	786
\$5,000.....	944	1,062	1,048
\$8,000.....	1,780	2,003	1,974
\$10,000.....	2,436	2,741	2,704
\$15,000.....	4,448	5,004	4,940
\$20,000.....	6,942	7,810	7,718
\$25,000.....	9,796	11,021	10,872
\$50,000.....	26,388	29,687	28,234
\$100,000.....	66,798	74,831	69,344
\$300,000.....	247,274	263,831	251,522
\$500,000.....	429,274	² 450,000	434,922
\$1,000,000.....	¹ 870,000	² 900,000	³ 880,000

MARRIED COUPLE, NO DEPENDENTS

\$1,500.....	\$60	\$68	\$67
\$2,000.....	160	180	178
\$3,000.....	360	405	400
\$4,000.....	560	630	622
\$5,000.....	760	855	844
\$8,000.....	1,416	1,593	1,571
\$10,000.....	1,888	2,124	2,096
\$15,000.....	3,260	3,668	3,618
\$20,000.....	4,872	5,481	5,408
\$25,000.....	6,724	7,565	7,460
\$50,000.....	19,592	22,041	21,744
\$100,000.....	52,776	59,373	56,468
\$300,000.....	222,572	244,161	228,664
\$500,000.....	403,548	433,161	411,344
\$1,000,000.....	858,548	² 900,000	869,844

MARRIED COUPLE, 2 DEPENDENTS

\$3,000.....	\$120	\$135	\$133
\$4,000.....	320	360	355
\$5,000.....	520	585	577
\$8,000.....	1,152	1,296	1,278
\$10,000.....	1,592	1,791	1,766
\$15,000.....	2,900	3,263	3,222
\$20,000.....	4,464	5,022	4,952
\$25,000.....	6,268	7,052	6,956
\$50,000.....	18,884	21,245	20,964
\$100,000.....	51,912	58,401	55,592
\$300,000.....	221,504	243,027	227,584
\$500,000.....	402,456	432,027	410,243
\$1,000,000.....	857,456	² 900,000	868,743

¹ Maximum effective rate limitation of 87 percent.² Maximum effective rate limitation of 90 percent.³ Maximum effective rate limitation of 88 percent.

2. Reasons for the rate changes

Your committee believes that in view of revenue requirements resulting from the present national defense emergency it is necessary to make substantial increases in the individual income taxes. Only by such increases will it be possible to come close to balancing the budget and alleviating the impact of increased inflationary pressures arising from additional defense expenditures. It is believed, however, that the 12½-percent increase in present taxes provided by the House

bill is too severe in view of the fact that an average increase of 17 percent in individual income taxes has been made quite recently by the Revenue Act of 1950. For that reason your committee has reduced this percentage increase for the bulk of the taxpayers to 11 percent of their present taxes. Even with this increase many taxpayers will find themselves with tax rates in excess of the peak rates imposed during World War II.

Your committee modified this 11-percent increase by providing that in no case is the increase to be more than about 8 percent on the income remaining after taxes. Your committee believes that a provision of this type is fairer to all income groups than the type of provision adopted by the House. For most taxpayers their present tax is much smaller than their income remaining after the payment of taxes. However, because of the present highly progressive income tax rates for some taxpayers, their income remaining after the payment of all taxes is smaller than their present tax burden. In the case of both of these groups of taxpayers, your committee's bill imposes an increase on the smaller amount; in the case of the former group, on the present tax burden, and in the case of the latter group, on the income remaining after payment of the present tax burden. The percentage increase in income after taxes is effective with respect to taxable incomes of about \$27,000 and over. It was believed necessary to provide a limitation of this type, in view of the fact that in the upper income brackets the marginal rates, or the rates applying to the next dollar of income, are already very high. The present law marginal tax rate at \$28,000 of surtax net income, for example, is 62 percent; at \$44,000 is 72 percent; at \$70,000 is 81 percent; and at \$200,000 is 91 percent. Your committee's bill raises these marginal rates very substantially, although not as much as the 12½-percent increase provided by the House. In the view of your committee, the marginal rate of about 70 percent provided on surtax net income of \$28,000 under the House bill will seriously impair the incentives of the taxpayers in this bracket to work and to invest. Still more drastic is the marginal rate of nearly 85 percent provided by the House bill on incomes of \$50,000, and the rate of 94.5 percent provided for incomes of \$80,000. The rates provided by your committee's bill in these brackets also are drastic but less so than those of the House bill. Under your committee's bill the marginal rate at \$28,000 is 67 percent; at \$44,000 is 73 percent; at \$70,000 is 82 percent; and at \$200,000 is 91.7 percent.

A similar limitation on the tax increase was previously provided in the Victory tax imposed by the Revenue Act of 1942. That tax was limited to the excess of 90 percent of net income after the regular income tax liability. The 1940 defense tax also used this type of formula. Your committee believes that in bracket areas where the progression is already quite steep the formula used in imposing additional taxes should measure ability to pay by taking into consideration taxes already paid. It is only the funds remaining after the payment of the present tax burden which such individuals will have available to meet additional tax burdens.

Although the House bill increases the alternative tax on capital gains to a little over 28 percent, your committee's bill retains the ceiling rate in this tax at 25 percent. Your committee recognizes that capital gains are different from ordinary income in that the time of

realizing a capital gain, to a substantial degree, is subject to the control of the taxpayer. Therefore, in this case, particularly, high rates tend to discourage the realization of gains. Congress has recognized this as far back as the Revenue Act of 1942 by placing an effective ceiling rate of 25 percent on capital gains income. Since that time, although individual income tax rates have been both substantially increased and decreased, this ceiling rate has remained the same. In view of this your committee does not believe that it is appropriate to consider a change in this ceiling rate at this time.

A termination date, namely, December 31, 1953, has been provided by your committee for the individual income tax rate increases because it is recognized that these rates are exceedingly high, and your committee hopes that it will be unnecessary to continue rates at this high level after December 31, 1953. In any case, it appears desirable to review the levels of the individual income tax rates at that time.

November 1, 1951 was selected as the effective date for the individual income tax increases because so much of the individual income tax is collected through the withholding system that it is not feasible to make changes in this tax applicable prior to the time the withholding rate increases can be made. Because some time will be required for the preparation of the new withholding tax tables and their distribution to employers, November 1 appears to be the earliest possible date at which withholding can be made effective. The September 1 date contained in the House bill was selected before it was known how much time would be required for the proper consideration for this tax measure.

Your committee has included the increase provided by its bill in the regular surtax rate schedule because it is believed that this will be easier for both the taxpayers and the administrators. The report of the Committee on Ways and Means of the House indicates that the rate increase provided by the House bill was not included in the rate schedule because it was believed that a separate schedule would be more generally recognized as representing a temporary tax increase. Your committee agrees with this objective, but believes that it is better accomplished by the termination date for the individual income tax increases as provided in its bill. Therefore, it was believed unnecessary to retain the increase made by your committee as a separate computation.

B. HEAD-OF-HOUSEHOLD PROVISION

1. *Description*

For persons qualifying as a "head of a household" your committee's bill provides a new surtax table applicable for taxable years beginning after October 31, 1951 and the House bill, for taxable years beginning after August 31, 1951. Thus, in both cases, for a calendar year taxpayer, the provision will not become effective until 1952. In your committee's bill the new surtax table is constructed to give heads of households approximately one-quarter of the benefits of income-splitting, while the surtax table in the House bill provides them approximately one-half of these benefits.

Your committee's bill defines a head of a household, for purposes of obtaining the benefits of this special provision, as an individual who is not married and who maintains a household in which lives—

(1) One of his children (including an adopted child), one of their descendants or a stepchild (but the child, descendant, or stepchild if married must still be a dependent of the taxpayer and not file a joint return); or

(2) Any person (not filing a joint return with a spouse), who has a gross income of less than \$600,⁵ more than half of whose support is supplied by the taxpayer and who bears one of the following relationships to the taxpayer:

- (a) A brother or sister or stepbrother or stepsister,
- (b) A parent or one of their ancestors,
- (c) A stepparent,
- (d) A nephew or niece,
- (e) An uncle or aunt, or
- (f) A son-in-law, daughter-in-law, mother-in-law, father-in-law, sister-in-law, or brother-in-law.

The House bill differs only in one minor respect in the tests outlined above. In the House bill the descendants of stepchildren are included among the relatives who if living in the household of a taxpayer may make him eligible for the head-of-household status.

Under both bills, a taxpayer is considered as maintaining a household only if during the year he furnishes more than half the maintenance costs of such household. Moreover, the individual who makes it possible for the taxpayer to gain the benefits of the head-of-household status must actually live in the taxpayer's household during the entire taxable year unless he is temporarily absent, for example, attending school or for reasons of health. Under this definition it is immaterial how much gross income an unmarried child or grandchild living with the taxpayer may have.

Table 3 shows for both the House bill and your committee's bill the amount of tax paid at selected net income levels for heads of households with one dependent, for single individuals with one dependent, and for married couples with no dependents. It also shows how much less the tax of the head of household and the tax of the married couple are than that of the single person at the same income level. This represents the benefits of income splitting which present law grants in full to married couples and which both the House and your committee's bill grant in part to heads of households. The last column of the table expresses the income-splitting benefits granted heads of households as percentages of the income-splitting benefits available to married couples. This shows that your committee's bill grants about 25 percent, and the House bill about 50 percent, of the benefits of income splitting to heads of households.

⁵ Under present law the taxpayer is allowed a dependency credit provided the dependent has a gross income of less than \$500. Sec. 310 of your committee's bill, discussed elsewhere in this report, raises the allowable gross income of a dependent to \$600.

TABLE 3.—Comparison of individual income tax burdens for heads of households under the House bill and your committee's bill with those for single persons with 1 dependent and for married couples under both bills, for 1952

A. HOUSE BILL

Selected net income levels ¹	Amount of tax			Amount of tax difference between single person with 1 dependent and—		Percent tax difference of head of household is of that of married couple
	Head of household with 1 dependent	Single individual with 1 exemption	Married couple filing a joint return	Head of household	Married couple	
\$1,500.....	\$68	\$68	\$68			
\$2,000.....	180	180	180			
\$3,000.....	405	405	405			
\$5,000.....	875	896	855	\$21	\$41	51.2
\$8,000.....	1,697	1,800	1,593	103	207	49.8
\$10,000.....	2,318	2,511	2,124	193	387	49.9
\$15,000.....	4,172	4,696	3,668	524	1,028	51.0
\$20,000.....	6,462	7,452	5,481	990	1,971	50.2
\$25,000.....	9,092	10,622	7,565	1,530	3,057	50.0
\$50,000.....	25,605	29,201	22,041	3,596	7,160	50.2
\$100,000.....	66,830	74,264	59,373	7,434	14,891	49.9
\$500,000.....	442,724	² 450,000	433,161	7,276	16,839	43.2
\$1,000,000.....	² 900,000	² 900,000	² 900,000			

B. COMMITTEE BILL

\$1,500.....	\$67	\$67	\$67			
\$2,000.....	178	178	178			
\$3,000.....	400	400	400			
\$5,000.....	872	883	844	\$11	\$39	28.2
\$8,000.....	1,728	1,776	1,571	48	205	23.4
\$10,000.....	2,388	2,476	2,096	88	380	23.2
\$15,000.....	4,372	4,636	3,618	264	1,018	25.9
\$20,000.....	6,872	7,364	5,408	492	1,956	25.2
\$25,000.....	9,722	10,482	7,460	760	3,022	25.1
\$50,000.....	26,288	27,796	21,744	1,508	6,052	24.9
\$100,000.....	65,732	68,816	56,468	3,084	12,348	25.0
\$500,000.....	428,890	434,372	411,344	5,482	23,028	23.8
\$1,000,000.....	³ 880,000	³ 880,000	869,844		10,156	

¹ Income after deductions but before exemptions.

² Maximum effective rate limitation of 90 percent.

³ Maximum effective rate limitation of 88 percent.

2. Reasons for adopting the head-of-household provision

Your committee agrees with the House that taxpayers, not having spouses but nevertheless required to maintain a household for the benefit of other individuals, are in a somewhat similar position to married couples who, because they may share their income, are treated under present law substantially as if they were two single individuals each with half of the total income of the couple. The income of a head of household who must maintain a home for a child, for example, is likely to be shared with the child to the extent necessary to maintain the home and raise and educate the child. This, it is believed, justifies the extension of some of the benefits of income splitting. The hardship appears particularly severe in the case of the individual with children to raise who, upon the death of his spouse, finds himself in the position not only of being denied the spouse's aid in raising the children, but under present law also may find his tax load much heavier.

As indicated by the report of the Committee on Ways and Means of the House it does not appear appropriate to give a head of household the full benefits of income splitting because it is unlikely that there is

as much sharing of income in these cases as between spouses. Moreover, it is your committee's opinion that in view of the fact that under the head-of-household provision taxpayers are not required to include the income of the dependent (spouses must file a joint return in order to enjoy the benefits of income splitting) an allowance of 25 percent of the benefits of income splitting for such taxpayers should be adequate.

In defining the relationship to the taxpayer of an individual who enables the taxpayer to claim the head-of-household status, the relationships provided in section 25 (b) (3) of the code for claiming a dependency credit have been followed. In all cases except those in which unmarried children, their descendants or stepchildren live in the home of the taxpayer he must supply over half of the support of the relative and the relative must have gross income of less than \$600.⁶ These limitations are believed to be unnecessary in the case of children, grandchildren, or stepchildren because such relatives are ordinarily a part of the close family unit and the relationship is more nearly similar to that existing between spouses than is true in the other cases. However, even such individuals must live in the same household as the taxpayer, except for the temporary absences previously described, and the taxpayer must supply over half the cost of maintaining the household. However, the limitations described in section 25 (b) (3) are applied where the children or grandchildren are married. This will prevent extending the benefits of a head of household to a parent while the child is himself obtaining the benefits of income splitting with his spouse.

C. DISTRIBUTION OF TAX BURDEN

Table 4 shows the distribution of the individual income tax burden under present law, the House bill and your committee's bill by adjusted gross income classes.⁷ It also distributes by the same classes the number of taxable returns, the adjusted gross income, the value of the exemptions and the normal tax and surtax net income.⁸

The table indicates that of \$25,823 million in total individual income tax liability under your committee's bill, \$9,637 million will come from those with adjusted gross incomes of \$5,000 or less and \$16,186 million from those with adjusted gross incomes of over \$5,000.

⁶ See footnote 4 above.

⁷ Income after business but before personal deductions and exemptions.

⁸ Income after business and personal deductions and exemptions.

TABLE 4.—*Estimated distribution of individual income-tax returns, income, exemptions, and tax liability under present law, House bill, and Finance Committee bill when fully effective*

[Money amounts in millions of dollars]

Adjusted gross income classes	Total number of returns	Adjusted gross income	Value of exemptions	Surtax net income	Total tax, present law ¹	Total tax under House bill ¹	Total tax under Finance Committee bill ¹
Under \$1,000	1,868,095	\$1,556	\$1,121	\$272	\$54	\$61	\$60
\$1,000 to \$2,000	6,991,074	10,875	5,436	4,209	842	947	934
\$2,000 to \$3,000	10,908,014	27,275	12,918	11,226	2,245	2,526	2,492
\$3,000 to \$4,000	9,830,797	33,462	15,496	14,315	2,871	3,229	3,186
\$4,000 to \$5,000	6,262,777	27,905	11,259	13,247	2,672	3,002	2,964
Total under \$5,000	35,860,757	101,073	46,230	43,268	8,684	9,765	9,637
\$5,000 to \$10,000	6,645,679	42,850	12,524	24,916	5,080	5,707	5,635
\$10,000 to \$25,000	1,342,865	19,470	2,637	14,742	3,488	3,908	3,864
\$25,000 to \$50,000	247,141	8,200	495	6,970	2,289	2,560	2,529
\$50,000 to \$100,000	70,115	4,675	138	3,966	1,862	2,086	2,026
\$100,000 to \$250,000	18,276	2,559	35	1,966	1,276	1,429	1,341
\$250,000 to \$500,000	1,967	647	3	438	378	418	388
\$500,000 to \$1,000,000	479	316	1	185	192	209	195
\$1,000,000 and over	189	310	(2)	178	206	219	208
Total over \$5,000	8,326,711	79,027	15,833	53,363	14,771	16,537	16,186
Total	44,187,468	180,100	62,063	96,631	23,455	26,302	25,823

¹ Includes normal tax, surtax, and alternative tax on net long-term capital gains.

² Less than \$500,000.

NOTE.—Figures are rounded and may not add to totals.

IV. GENERAL CORPORATE TAX CHANGES

Both your committee's bill and the House bill provide a top corporate rate of 52 percent as contrasted to 47 percent under existing law. Your committee's bill provides a corporate income tax rate of 27 percent on the first \$25,000 of each corporation's income, and a 52-percent rate on all income in excess of \$25,000. This can be compared with House bill rates of 30 percent on the first \$25,000 of income, and 52 percent on all income in excess of \$25,000. Under existing law the first \$25,000 of each corporation's income is taxed at 25 percent and all income in excess of this amount is taxed at 47 percent. Under both your committee's bill and the House bill the top corporate income tax rate, taken together with the 30 percent excess profits tax rate, gives a combined rate of 82 percent applying to adjusted excess profits net income, as compared with a combined rate of 77 percent under existing law. Your committee's bill provides a ceiling rate of 17 percent for excess profits tax and consolidated return purposes, which when taken together with the maximum effective rate of about 52 percent under the corporate income tax, means that in no case will more than about 69 percent of a corporation's income be taken in income, consolidated return and excess profits taxes. The House bill provides a ceiling rate on income taxes and excess profits taxes, taken together, of 70 percent, and present law provides a 62 percent ceiling of this type. The normal tax and surtax rate changes provided by your committee's bill are effective as of April 1, 1951, and are to terminate as of December 31, 1953. The House bill sets January 1, 1951, as the effective date but has no termination provision.

It is estimated that in a full year of operation these changes in corporate rates will increase liabilities by \$2,220 million before

consideration is given to the effect on individual income taxes of the smaller amounts which will be available for corporation dividend payments. Of this amount, \$2,100 million is attributable to the increases in the regular corporate income taxes. The additional \$120 million is attributable to increases in excess profits tax liabilities. It is estimated that after the decrease in individual income tax collections resulting from smaller dividend payments is taken into account, the net increase provided by the actions of your committee with respect to corporate rates will be \$2,060 million. The House bill provided a gross increase in corporate tax liabilities of \$3,078 million and a net increase of \$2,855 million.

In the fiscal year 1952, ending June 30, 1952, it is estimated that the increases in corporate rates provided by your committee's bill will increase revenues in this year by \$870 million as compared with \$1,740 million under the House bill.

A. NORMAL TAX AND SURTAX RATE CHANGES

Your committee's bill provides a corporate normal tax rate of 27 percent as compared to 25 percent under existing law, and 30 percent under the House bill. The corporate surtax rate under your committee's bill is 25 percent as compared to 22 percent under both existing law and the House bill. Changes are also provided in both your committee's and the House bills in the credits allowed Western Hemisphere trade corporations and the credits for dividends paid and received on preferred stock of public utilities, in order to retain the tax differential provided in these cases under existing law.

Since corporations with incomes of \$25,000 or less are subject only to the normal tax, their rate of tax is increased from 25 percent to 27 percent under your committee's bill, or by 3 percentage points less than is provided by the House bill. The combined normal tax and surtax on incomes in excess of \$25,000 is increased from 47 percent to 52 percent by your committee's action, the same increase as is provided by the House bill. Table 5 compares for corporations with selected net incomes the combined corporate normal tax and surtax effective rates under your committee's bill with those under the House bill, under existing law and under the law in effect prior to the enactment of the Revenue Act of 1950. The table indicates that under your committee's provisions the effective rate, or average rate on the entire taxable income, for corporations with incomes of \$25,000 or less, is always 2 percentage points above existing law and 3 percentage points below the House bill. For corporations with incomes above \$25,000 the percentage point increase provided by your committee as the income grows larger gradually approaches, but never quite reaches, a 5-percentage-point increase over existing law. Or, expressing it another way, the increase provided by your committee's bill never quite reaches the increase provided by the House bill. This is attributable to the fact that your committee did not place the full 5-percentage-point increase on the normal tax with respect to which corporations are fully taxable, but rather added 3 of the additional 5 percentage points to the surtax with respect to which corporations have a \$25,000 exemption.

Table 6 shows for corporations with selected net incomes the combined corporate normal tax and surtax liabilities under your com-

mittee's bill, under the House bill, under existing law, and under the law in effect prior to the enactment of the Revenue Act of 1950. The increase in tax liabilities of your committee's bill over existing law ranges in the cases shown from 8 percent on incomes under \$25,000, to 10.64 percent on incomes of \$100,000,000. Under the House bill the increase in tax liabilities ranges in the cases shown from 20 percent of the tax due under present law on incomes under \$25,000, to 10.64 percent on incomes of \$100,000,000. Thus under your committee's bill the percentage increase in tax grows larger as the income increases, while under the House bill exactly the reverse is true.

The rate increases provided by your committee's bill are much larger than it would ordinarily be desirable to provide, and it is realized that if corporate rates are continued at this high level indefinitely the expansion of productive facilities may be seriously impaired. For this reason your committee has set December 31, 1953, as the termination date for these increases. In the interval before 1953, your committee believes that corporations will be able to stand these high rates in view of the high corporate profits stemming in a large part from the national defense program and the high level of demand generally for products and services. In the first quarter of 1951 corporate profits before taxes were running at the annual rate of nearly \$52 billion, and in the second quarter of 1951 it is estimated that corporate profits were running at the annual rate of \$48½ billion. Thus, corporate profits in the first half of 1951 are above the very high rates reached in the last half of 1950 and one-half again as large as the profits in the calendar year 1948, which were the largest prior to 1950. It is expected that corporate profits after all taxes, even including the taxes imposed by your committee's bill, will be within about \$2.5 billion of the level of corporate profits after taxes in 1950 and above the profits after taxes in any prior year except 1948. During World War II, for example, corporate profits after taxes ranged from \$8.5 billion to \$10.8 billion as compared to anticipated corporate profits of about \$20 billion after the taxes imposed under your committee's bill.

TABLE 5.—Comparison of corporate combined normal tax and surtax effective rates under present law, House bill and Senate Finance Committee bill

Net income subject to normal tax and surtax	Effective rates of combined normal tax and surtax (percent)				Percentage point increase over present law	
	Pre-1950	Present law	House bill	Finance Committee bill	House bill	Finance Committee bill
\$1,000.....	21.00	25.00	30.00	27.00	5.00	2.00
\$5,000.....	21.00	25.00	30.00	27.00	5.00	2.00
\$10,000.....	22.00	25.00	30.00	27.00	5.00	2.00
\$25,000.....	23.00	25.00	30.00	27.00	5.00	2.00
\$30,000.....	28.00	28.67	33.67	31.17	5.00	2.50
\$40,000.....	34.25	33.25	38.25	36.38	5.00	3.13
\$50,000.....	38.00	36.00	41.00	39.50	5.00	3.50
\$60,000.....	38.00	37.83	42.83	41.58	5.00	3.75
\$75,000.....	38.00	39.67	44.67	43.67	5.00	4.00
\$100,000.....	38.00	41.50	46.50	45.75	5.00	4.25
\$200,000.....	38.00	44.25	49.25	48.88	5.00	4.63
\$500,000.....	38.00	45.90	50.90	50.75	5.00	4.85
\$1,000,000.....	38.00	46.45	51.45	51.38	5.00	4.93
\$10,000,000.....	38.00	46.95	51.95	51.94	5.00	4.99
\$100,000,000.....	38.00	46.99	51.99	51.99	5.00	¹ 5.00

¹ This percentage is rounded. It actually is just under 5 percent.

TABLE 6.—Comparison of corporate normal tax and surtax liabilities under pre-1950 law, present law, House bill, and Finance Committee bill

Net income subject to normal tax and surtax	Combined normal tax and surtax				Increase in tax liability over present law			
					Amount		Percent	
	Pre-1950	Present law	House bill	Finance Committee bill	House bill	Finance Committee bill	House bill	Finance Committee bill
\$1,000.....	\$210	\$250	\$300	\$270	\$50	\$20	20.00	8.00
\$5,000.....	1,050	1,250	1,500	1,350	250	100	20.00	8.00
\$10,000.....	2,200	2,500	3,000	2,700	500	200	20.00	8.00
\$25,000.....	5,750	6,250	7,500	6,750	1,250	500	20.00	8.00
\$30,000.....	8,400	8,600	10,100	9,350	1,500	750	17.44	8.72
\$40,000.....	13,700	13,300	15,300	14,550	2,000	1,250	15.04	9.40
\$50,000.....	19,000	18,000	20,500	19,750	2,500	1,750	13.89	9.72
\$60,000.....	22,800	22,700	25,700	24,950	3,000	2,250	13.22	9.91
\$75,000.....	28,500	29,750	33,500	32,750	3,750	3,000	12.61	10.08
\$100,000.....	38,000	41,500	46,500	45,750	5,000	4,250	12.05	10.24
\$200,000.....	76,000	88,500	98,500	97,750	10,000	9,250	11.30	10.45
\$500,000.....	190,000	229,500	254,500	253,750	25,000	24,250	10.89	10.57
\$1,000,000.....	380,000	464,500	514,500	513,750	50,000	49,250	10.76	10.60
\$10,000,000.....	3,800,000	4,694,500	5,194,500	5,193,750	500,000	499,250	10.65	10.63
\$100,000,000.....	38,000,000	46,994,500	51,994,500	51,993,750	5,000,000	4,999,250	10.64	10.64

Moreover, these larger tax collections during the immediate period ahead will occur during a period of large defense orders and a high level of consumer income. The assurance of these large and predictable markets for producers during the immediate period ahead must be offset against the adverse effect on incentives of the high corporate taxes provided by this bill.

Your committee deems it desirable to add only two out of the five percentage points by which corporate taxes are increased to the normal tax because this is the only rate under which some small corporations are taxed and the rate under which most of the income of other relatively small corporations is taxed. Your committee believes that the continuance of a free competitive market demands the creation of new, and the growth of existing, small businesses and that this necessitates preferential tax treatment with today's corporate tax burden.

B. CEILING RATE OR MAXIMUM RATE LIMITATION

Under existing law the normal tax, surtax, 2-percent tax on consolidated returns, and excess profits tax together may not exceed 62 percent of a corporation's excess profits net income (income before deducting the excess profits credit and unused excess profits credit carry-over.⁹ Thus, for corporations with effective income tax rates of about 47 percent, this means that the excess profits tax may not exceed about 15 percent of their excess profits net income.

Under the House bill this ceiling rate, or maximum rate limitation, is raised to 70 percent, or by 8 percentage points. Five of these percentage points merely offset the 5-percentage-point increase in the income tax rates in the case of the corporation with most of

⁹ For this purpose the excess profits net income is substituted for the normal tax net income and surtax net income in computing the various taxes involved. Excess profits net income is income before the deduction of the excess profits tax credit and the excess profits credit carry-over. The 30 percent excess profits tax rate is applied to adjusted excess profits net income—that is, excess profits net income after deduction of the excess profits credit and the unused excess profits credit carry-over.

its income taxed at the 52-percent rate. The additional 3-percent-age-point increase in the ceiling rate provided by the House bill, however, has the effect of increasing the excess profits tax liabilities of many corporations. The 70-percent ceiling rate for a corporation with an effective income tax rate of about 52 percent means that its excess profits tax may not exceed about 18 percent of its excess profits net income under the House bill as contrasted to 15 percent under existing law.

Your committee's bill adopts a new type of ceiling rate. The ceiling rate in this bill is 17 percent of excess profits net income but applies only with respect to excess profits tax liability and the tax liability on consolidated returns. For corporations with income tax effective rates of about 52 percent this is the equivalent of about a 69-percent ceiling rate on liabilities under the income taxes, consolidated return tax and excess profits tax, taken together, and this is the rate which is comparable in these cases to the 70-percent ceiling rate under the House bill and the 62-percent ceiling rate under existing law. However, because of the \$25,000 surtax exemption, the effective income tax rates of corporations with taxable incomes of less than \$300,000 is less than 50 percent. As a result a ceiling rate of 69 percent on their combined income and excess profits liabilities is quite different from a 17-percent ceiling on their excess profits tax liabilities. Table 7 shows for selected income levels, the effective income tax rates under your committee's bill, and the maximum effective rates with the 69-percent ceiling formula and the 17-percent ceiling formula. The table indicates that for corporations with incomes over \$58,000 ¹⁰ the 17-percent formula is the more generous, resulting in a maximum tax saving of nearly 6 percent of total income for corporations with incomes of about \$106,000.

¹⁰ For corporations with incomes under \$57,692.31 the \$25,000 minimum excess profits tax credit prevents a higher effective rate than 17 percent under both formulas.

TABLE 7.—*Corporation normal tax and surtax effective rates under the Finance Committee bill, and a comparison of the maximum effective rates of income and excess-profits taxes under a 69-percent ceiling rate on income and excess-profits taxes with the ceiling rate under the Senate Finance Committee bill (a 17-percent ceiling rate on excess-profits taxes alone)*

Current income	Effective rate of normal tax and surtax under Finance Committee bill	Maximum effective rate of income and excess-profits taxes		
		69 percent income and excess-profits ceiling	17 percent excess-profits tax ceiling (provided by bill)	Percentage point difference
	Percent	Percent	Percent	Percent
\$10,000.....	27.00	¹ 27.00	² 27.00	-----
\$25,000.....	27.00	¹ 27.00	² 27.00	-----
\$30,000.....	31.17	¹ 36.17	² 36.17	-----
\$40,000.....	36.38	¹ 47.63	² 47.63	-----
\$50,000.....	39.50	¹ 54.50	² 54.50	-----
\$57,692.....	41.17	¹ 58.17	² 58.17	-----
\$60,000.....	41.58	¹ 59.08	58.58	0.50
\$70,000.....	43.07	¹ 62.36	60.07	2.29
\$80,000.....	44.19	¹ 64.81	61.19	3.62
\$90,000.....	45.06	¹ 66.72	62.06	4.66
\$100,000.....	45.75	¹ 68.25	62.75	5.50
\$105,769.....	46.09	69.00	63.09	5.91
\$150,000.....	47.83	69.00	64.83	4.17
\$200,000.....	48.88	69.00	65.88	3.12
\$250,000.....	49.50	69.00	66.50	2.50
\$300,000.....	49.92	69.00	66.92	2.08
\$400,000.....	50.44	69.00	67.44	1.56
\$500,000.....	50.75	69.00	67.75	1.25
\$1,000,000.....	51.38	69.00	68.38	.62
\$10,000,000.....	51.94	69.00	68.94	.06
\$100,000,000.....	51.99	69.00	68.99	.01

¹ As a result of the \$25,000 surtax exemption and the \$25,000 minimum credit, the maximum effective rate on income and excess-profits tax liabilities is always less than 69 percent for corporations with incomes below \$105,769.23.

² As a result of the \$25,000 minimum excess-profits-tax credit, the maximum effective excess-profits tax rate for corporations with incomes below \$57,692.31 is always less than 17 percent.

Your committee prefers this ceiling on excess-profits-tax liabilities over the type of ceiling rate in present law and the House bill because this type of ceiling rate is more advantageous to small corporations. Moreover, even for large corporations this 17-percent ceiling rate provides a maximum effective rate on total liabilities which is never quite 69 percent as compared to the flat 70-percent ceiling provided under the House bill. Although the large corporations subject to this maximum rate necessarily have substantially larger earnings than their excess-profits-tax credit would suggest is "normal," this lower maximum rate is deemed desirable because imperfections in the present allowable methods of computing the excess-profits credit may substantially understate "normal" earnings.

C. CAPITAL-GAINS TAX RATE

The House bill increased the capital-gains tax rate for corporations from 25 to 28.125 percent. This is an increase of 12½ percent, which corresponds with the 12½-percent increase made by the House bill in the capital-gains tax rate of individuals. Since your committee's bill provides no increase in the maximum capital-gains tax rate of individuals, no increase is made in the capital-gains tax rate of corporations. Under the House bill it was estimated that the rate increase in capital gains would increase corporate tax liabilities by \$38 million before taking into account the reduction in corporate dividend payments.

D. PERCENTAGE OF THE AVERAGE BASE PERIOD NET INCOME TAKEN INTO ACCOUNT IN COMPUTING THE EXCESS-PROFITS CREDIT

Under present law a corporation in computing its excess-profits credit on the basis of average earnings may take into account only 85 percent of its average earnings in its three best years in the period 1946-49. The House bill reduces this percentage to 75 percent, but your committee's bill keeps it at 85 percent.

After studying this point last year in its consideration of excess profits tax legislation, your committee concluded that a 15-percent discount was an adequate adjustment in order to place 1946-49 earnings on a normal basis and your committee believes a greater discount cannot be sustained. To further reduce this 85 percent in the case of the average-earnings base is to penalize those using this type of credit instead of the invested capital credit. It should not be forgotten that in the World War II excess-profits tax the average earnings in the base period was only reduced by 5 percent.

E. EFFECTIVE DATE

Under your committee's bill the corporate rate increases are effective as of April 1, 1951. Under the House bill they are effective as of January 1, 1951. Your committee generally is opposed to making retroactive rate increases and for this reason did not accept the House effective date of January 1. However, the need for revenue in the fiscal year 1952 made it necessary for your committee to apply these rate increases as far back as April 1 of this year. By making these corporate rate increases effective at that time it is anticipated that collections in the fiscal year 1952 (before taking into account the effect of smaller dividends on individual income tax collections) will be increased by \$975 million as contrasted to only \$615 million if, for example, the corporate rate changes were not made effective until July 1, or \$295 million if the rate changes were made effective as of October 1. Moreover, by making the rate increase effective as of January 1, the House bill increases the tax of most corporations even before they have paid any of the additional taxes resulting from the increases made by the Revenue Act of 1950. Thus, for a calendar year corporation, for example, the top corporate rate would jump from 42 percent in 1950 to 52 percent in 1951. This is an increase of about 24 percent, and your committee considers it too steep an increase to be made with respect to a single year. By making the increase effective as of April 1, your committee's bill spreads the full 24 percent increase over 2 years instead of 1. It should also be noted that for the bulk of the corporations, which are on a calendar-year basis, the Government will not begin collecting this additional 1951 tax liability until March 1952 and will not complete its collection until December 1952. Thus, corporations will have adequate time in which to prepare for these additional tax payments.

The corporate income tax and ceiling rate changes provided by your committee's bill are to be effective with respect to taxable years beginning after March 31, 1951. For corporations with taxable years beginning prior to July 1, 1950, and ending after March 31, 1951, your committee's bill provides a formula for prorating the taxes due under the law in effect prior to the Revenue Act of 1950, under existing law

and under your committee's bill. For corporations with taxable years beginning after June 30, 1950, and ending after March 31, 1951, your committee's bill prorates the taxes due under existing law and under your committee's bill. In general these proration formulas provide that the tax on the entire income is to be computed at the two or three different rates applicable. Then these taxes are multiplied by a fraction of which the numerator is the number of days in the corporation's taxable year in which the rate in question is effective, and the denominator is the total number of days in its taxable year. The sum of these fractional taxes is the corporation's final obligation.

F. DISTRIBUTION OF THE BURDEN

Table 8 shows the combined corporate income and excess profits tax liabilities of corporations in various income classes under existing law, under the House bill and under your committee's bill. The table indicates that of the 415,182 corporations with taxable net income, 292,491, or about 70 percent of the total, have incomes of less than \$25,000. These corporations which have 4.8 percent of the total taxable income, bear 3.55 percent of the increase in tax liabilities provided by the House bill, but only 1.94 percent of the increase in tax liabilities under your committee's bill. The 45,022 corporations with incomes of \$100,000 and over, which constitute about 11 percent of the total number of corporations with taxable net income, have 87.25 percent of the total taxable income, and would bear 89.34 percent of the increase provided by the House bill, or 92.37 percent of the increase provided by your committee's bill.

TABLE 8.—*Estimated corporate income and excess profits tax liabilities under present law, the House bill and the Finance Committee bill, calendar year 1951*¹

Taxable net income classes	Number of taxable returns	Taxable net income	Income and excess profits tax liabilities			Increase over present law	
			Present rates	House bill	Finance Committee bill	House bill	Finance Committee bill
		<i>Millions</i>	<i>Millions</i>	<i>Millions</i>	<i>Millions</i>	<i>Millions</i>	<i>Millions</i>
Up to \$25,000.....	292,491	\$2,161	\$540	\$648	\$583	\$108	\$43
\$25,000 to \$50,000.....	47,192	1,566	520	608	563	88	43
\$50,000 to \$100,000.....	30,477	2,018	899	1,027	982	128	83
\$100,000 and over.....	45,022	39,311	21,426	24,142	23,473	2,716	2,047
Total.....	415,182	45,056	23,385	26,425	25,601	3,040	2,216
Percent distribution							
Up to \$25,000.....	70.45	4.80	2.31	2.45	2.28	3.55	1.94
\$25,000 to \$50,000.....	11.37	3.47	2.22	2.30	2.20	2.90	1.94
\$50,000 to \$100,000.....	7.34	4.48	3.85	3.89	3.84	4.21	3.75
\$100,000 and over.....	10.84	87.25	91.62	91.36	91.68	89.34	92.37
	100.00	100.00	100.00	100.00	100.00	100.00	100.00

¹Based upon a level of profits before tax (Commerce basis) of \$48 billion.

V. TAX-EXEMPT ORGANIZATIONS

Your committee's bill imposes the regular corporate income tax on certain undistributed profits of the following organizations fully exempt from income tax under section 101 of the present law: farmers' purchasing and marketing cooperatives, mutual savings banks, and State chartered savings and loan associations, as well as Federal savings and loan associations. A minor amendment is also provided in the case of educational bodies with respect to their "feeder" organizations. This provision is in the House bill. With respect to mutual casualty and fire insurance companies, presently subject to limited taxation, the staffs of the Treasury Department and the Joint Committee on Internal Revenue Taxation have been requested to prepare a report on their tax treatment, and your committee will give consideration to this matter as soon as is feasible after the completion of that report.

The House bill does not go into the subject of tax treatment of cooperatives or mutual financial institutions. As a result the \$150 million which it is anticipated will be derived from the tax treatment provided in your committee's bill for these organizations represents an increase not only in the amount collected under present law but in the amount which would be collected under the House bill.

A. COOPERATIVES

Section 101 (12) of the code exempts from income tax all farm cooperatives which meet certain specified requirements. This exemption includes not only cooperatives marketing the products of farmers but also cooperatives purchasing products and reselling them to farmers. The chief requirements which must be met by cooperatives in order to be exempt from income tax under section 101 (12) are as follows:

1. They must be farmers', fruit growers', or like associations organized and operated on a cooperative basis for the purpose of marketing products or purchasing supplies for their members.
2. Substantially all of their stock (other than preferred non-voting stock) must be owned by producers marketing products or purchasing supplies through the cooperatives.
3. The marketing of products of nonmembers may not exceed 50 percent in value of the cooperative's total marketing.
4. The purchasing for nonmembers may not exceed 50 percent of the cooperative's total purchasing, and the purchasing for persons who are neither members nor producers may not exceed 15 percent of the cooperative's total purchasing.
5. Nonmembers must not be discriminated against in the allocation of patronage dividends or refunds to the accounts of patrons.

At the present time, the advantages which are derived from exemption can be summarized as follows: First, the earnings of a cooperative which are paid out to shareholders in the form of dividends on capital stock are not taxable to an exempt cooperative but are taxable to other cooperatives. Second, any part of the net margins or profits which are retained as reserves and not allocated to the accounts of patrons are not taxable to an exempt cooperative but are taxable in the case of other cooperatives. Third, nonoperating income such as interest, dividends,

rents, and capital gains and also the income from certain business done with the United States Government or its agencies, is taxable to the ordinary cooperative even when allocated to the accounts of patrons, but are tax-free to the exempt cooperative whether or not allocated.

Section 314 of your committee's bill continues the exemption provided by section 101 (12) of the code but removes from its application earnings which are placed in reserves or surplus and not allocated or credited to the accounts of patrons. In addition to being tax-free with respect to patronage dividends paid or allocated to patrons, as is generally also true in the case of other cooperatives, the cooperatives coming under section 101 (12) are also to remain exempt with respect to amounts paid as dividends on capital stock, and with respect to amounts allocated to patrons where the income involved was not derived from patronage, as for example in the case of interest or rental income, and income derived from business done with the Federal Government. Moreover, they will not be taxed in any way with respect to reserves set aside for any necessary purpose, or reserves required by State law, if such reserves are allocated to patrons.

As a result of this action, all earnings or net margins of cooperatives will be taxable either to the cooperative, its patrons or its stockholders with the exception of amounts which are paid or allocated to patrons on the basis of purchases of personal, rather than business, expense items. With this exception, funds which are allocated to the accounts of patrons, or paid in cash or merchandise, are taxable to them. This is true in the case of either taxable or tax-exempt cooperatives. In the case of either a tax-exempt or a taxable cooperative funds which are paid or allocated to patrons on the basis of personal expense items have no income-tax consequences to the patrons, since they represent a return with respect to expenditures by the patron of a personal nature, for which no income tax deduction has been taken by him. Funds which are not paid or allocated to patrons but are retained as reserves by the cooperatives will be taxable to the cooperative. This also will be true of both types of cooperatives. Funds paid out as dividends on ordinary capital stock in the case of the exempt cooperative will be taxable to the stockholder, while in the case of the taxable cooperative a tax is imposed at both the stockholder and the cooperative levels.

While the tax treatment provided by your committee for cooperatives does not impose the double taxes payable in the case of ordinary corporate income, your committee believes that the securing of a single tax with respect to substantially all of the income of cooperatives should be sufficient in view of the unique characteristics of a cooperative.

Your committee disapproves of withholding on dividends. However, should withholding on corporate dividends be provided your committee believes it should also be provided for patronage dividends paid by cooperatives. For that reason your committee has added a provision to the bill which subjects patronage dividends of cooperatives to a withholding tax if at any time one should be imposed upon corporate dividends.

It has been contended that, although patronage dividends are generally taxable to the patron, the patronage dividends paid in scrip or some other noncash form have not been included in the patron's income. It has been suggested that this is true because

the patron who reports his other income on a cash basis is not accustomed to considering noncash payments as income. Also, it has been suggested that the patron is reluctant to include noncash patronage dividends in his income in many cases because he does not have sufficient other cash income available to pay the tax involved. To ascertain the degree to which both cash and noncash patronage dividends are included in returns at the present time your committee's bill provides that the Commissioner of Internal Revenue is to require reporting by all cooperatives of patronage dividends which are paid to or allocated to the accounts of patrons in amounts of \$100 or more, and is to have the discretion to require reporting on smaller amounts. Also, the committee has instructed the staffs of the Treasury Department and Joint Committee on Internal Revenue Taxation to study and report by April 1, 1952, the possibility of withholding against reserves allocated, and on the various methods used in allocating reserves and the form and character of the certificates issued.

It is estimated that the action provided by your committee with respect to exempt cooperatives will increase collections from this source in a full year of operation by \$10 million.

B. MUTUAL FINANCIAL INSTITUTIONS

1. Mutual savings banks

Mutual savings banks were established to encourage thrift and to provide safe and convenient facilities to care for savings. They also have the responsibility of investing the funds left with them so as to be able to give their depositors a return on their savings. Mutual savings banks were originally organized for the principal purpose of serving factory workers and other wage earners of moderate means who, at the time these banks were started, had no other place where they could deposit their savings.

Most mutual savings banks were started by groups of individuals who put up guaranty funds which were repaid out of subsequent earnings. The organizers appointed boards of trustees to manage the affairs of the banks. The boards of trustees, which are generally self-perpetuating, direct the policies of the banks, subject to the limitations imposed upon them by the laws of the several States in which they operate. The depositors themselves have no voice either in the choice of trustees or in the management of the bank's affairs. However, since a mutual savings bank has no capital stock, everything that the bank earns is, in theory, held for the benefit of the depositors.

With respect to outlets for their funds, mutual savings banks are subject to limitations similar to those which apply to other banking institutions. They are not required to make loans only to depositors or members. Table 9 shows the types of assets held by mutual savings banks as of December 30, 1950, and in the case of federally insured mutual savings banks, the types of real estate loans as of June 30, 1950, and their earnings, expenses, and dividends for the year ending December 30, 1950. The table indicates that United States Government obligations represent nearly 51 percent, and loans 38 percent of the total loans and investments of these banks. In the case of commercial banks nearly 49 percent of their total loans and investments represent United States Government obligations, and

41 percent represent loans.¹¹ This indicates that if there is any important difference between the use of funds by mutual savings banks and commercial banks, it is that the investments of the former are somewhat safer. Mutual savings banks, of course, have a larger portion of their loans in real estate than do commercial banks, but this can be attributed to the fact that since the deposits of mutual savings banks are almost exclusively time deposits, it is possible for them to invest a substantial portion of their funds in nonliquid assets. On the other hand, the majority of the deposits of commercial banks are demand deposits requiring greater liquidity in their investments. In any case, the investment of funds in real estate today is not a sign of insecurity in view of the fact that an important segment of such loans are backed by the Federal Government. Table 9 indicates in the case of federally insured mutual savings banks, for which statistics are available, that, as of June 30, 1950, about 33 percent of the real-estate loans held by these banks were either insured by the Federal Housing Administration, or guaranteed by the Veterans' Administration. Moreover, even the other real-estate loans are more secure than formerly was the case because of the present general use of "declining-balance" loans in lieu of the older "fixed-amount" loans.

The total deposits of mutual savings banks as of June 27, 1951, were \$20,400 million and their capital accounts, \$2,290,¹² indicating that they have about \$1 of capital for every \$9 of deposits. As of the same date the total deposits of all commercial banks were \$150,280 million, and their capital accounts \$11,860 million, indicating that they only have about \$1 of capital for every \$13 of deposits. Thus, despite the absence of capital stock the mutual savings banks today on this ground also appear to have considerably more protection than commercial banks.

¹¹ As of December 30, 1950. Computed from data available in the Federal Reserve Bulletin.

¹² These statistics are published regularly in the Federal Reserve Bulletin.

TABLE 9.—Types of assets held by mutual savings banks as of Dec. 30, 1950, and for federally insured mutual savings banks, types of real estate loans held as of June 30, 1950, and earnings, expenses, and dividends in the calendar year 1950

I. ASSETS OF ALL MUTUAL SAVINGS BANKS IN THE UNITED STATES, AS OF DEC. 30, 1950

Item	Dollar amounts in millions
Total assets.....	\$22, 385
Cash and funds due from banks.....	797
United States Government obligations.....	10, 868
Obligations of States and subdivisions.....	88
Other securities.....	2, 253
Real estate and other loans.....	8, 137
Miscellaneous assets.....	242
Number of banks, 529.	

II. FEDERALLY INSURED AND CONVENTIONAL REAL ESTATE LOANS HELD BY INSURED MUTUAL SAVINGS BANKS, JUNE 30, 1950

Total real estate loans.....	\$5, 447
Federally insured:	
Insured FHA and guaranteed VA mortgage loans on 1- to 4-family properties.....	\$1, 364
Insured FHA and guaranteed VA loans on 5 or more family properties.....	415
Total.....	1, 779
Conventional loans.....	3, 668
Number of insured mutual savings banks, 192.	

III. EARNINGS, EXPENSES AND DIVIDENDS OF INSURED MUTUAL SAVINGS BANKS FOR THE YEAR ENDING DECEMBER 30, 1950

	Dollar amounts in thousands
Current operating earnings, total.....	\$478, 695
Interest, discount and other income on real estate loans.....	231, 730
Interest on U. S. Government obligations, direct and guaranteed..	182, 457
Other current earnings.....	64, 508
Current operating expenses.....	115, 470
Net current operating earnings.....	363, 225
Dividends (interest) paid on deposits.....	257, 770
Net profits after interest and dividends.....	91, 175
Number of insured mutual savings banks, Dec. 30, 1950, 194.	

Source: Annual Report of the Federal Deposit Insurance Corporation for the year ended Dec. 31, 1950, pp. 55 and 272, and Operating Insured Commercial and Mutual Savings Banks, Assets and Liabilities, June 30, 1950, Rept. No. 33, Federal Deposit Insurance Corporation.

Section 102 (2) of the code exempts mutual savings banks from the payment of any income tax. The effect of the exemption has been to relieve mutual savings banks of income tax on the amounts retained as undivided profits and additions to surplus. Since they have increased their surplus and undivided profits by over \$800 million since 1940, and by more than \$500 million since 1945, it would appear that they have enjoyed substantial tax savings as a result of the exemption.

Section 313 of your committee's bill removes the exemption of mutual savings banks and permits them to deduct amounts paid, credited or allocated to the accounts of depositors and, as in the case of other banks, permits them to deduct amounts credited to a reasonable reserve for bad debts. The addition to the reserve for losses on loans is to be determined with due regard to the taxpayer's surplus or loss reserves at the close of December 31, 1951. In addition, mutual savings banks are to be allowed as a deduction from

gross income any amount currently paid to the United States, or to any Federal Government instrumentality exempt from Federal income taxes, in repayment of indebtedness incurred prior to September 1, 1951. On the remaining income, mutual savings banks are to be taxed in the same manner as ordinary corporations. This provision is effective with respect to taxable years beginning after December 31, 1951.

The size of the bad-debt allowance provided in the case of commercial banks is determined under administrative rulings by the Commissioner of Internal Revenue. At present it is provided in the case of commercial banks that the amount which can be deducted from taxable income in any one year shall be determined by applying the ratio of losses to outstanding loans during the past 20 years, to the loans outstanding in the current year. These reserves are limited to three times the current 20-year loss ratio. In the case of mutual savings banks also, the formula permitted may be quite different from that now provided for commercial banks if the Commissioner after investigation finds that the historical loss experience of these institutions differs substantially from that of commercial banks. In fact, your committee believes that the loss experience of these banks should be based upon a period of at least 25 years if this, in the aggregate, would result in greater loss deductions for these banks than the 20-year period now provided in the case of commercial banks. Basing loss reserve deductions on the loss experience of the past 20 or 25 years will include a period in which the losses of the mutual savings banks were quite large, with the result that the loss reserve deductions permitted in the next several years will be relatively large.

At the present time, mutual savings banks are in active competition with commercial banks and life insurance companies for the public savings, and they compete with many types of taxable institutions in the security and real estate markets. As a result your committee believes that the continuance of the tax-free treatment now accorded mutual savings banks would be discriminatory. So long as they are exempt from income tax, mutual savings banks enjoy the advantage of being able to finance their growth out of earnings without incurring the tax liabilities paid by ordinary corporations when they undertake to expand through the use of their own reserves. The tax treatment provided by your committee would place mutual savings banks on a parity with their competitors.

Moreover, earnings of a mutual savings bank which are allocated to the accounts of depositors are subject to individual income tax. Since it is contended that the income which is retained by the mutual savings banks is the income of depositors, there seems to be no reason why this also should not be subject to tax. However, it is impossible to tax the depositors on these unallocated funds, since they have no legal right to the funds unless they are depositors at the time of liquidation of the bank. Therefore, if these earnings are to be recognized as income, there is no alternative but to tax them in the hands of the mutual savings banks which have the power over their management and disposition.

It has been suggested that mutual savings banks might be taxed only on their net income in excess of some specified reserve. However, if the funds going into this reserve represent income there would

appear to be no reason for not taxing them. If they are funds which are necessary to offset future losses, allowance will already have been made for them through a loss-reserve deduction which will afford these institutions at least as generous treatment as is accorded their chief competitors, namely, commercial banks.

2. Savings and loan associations

Savings and loan associations were established to encourage thrift and to promote home ownership. These organizations, which also go under the name of building and loan associations, are typically nonstock corporations which in reality secure their funds through deposits, which are known as "shares." Savings and loan associations may be chartered by the States or by the Home Loan Bank Board. Of the 5,980 associations which were doing business at the end of 1949, 1,505 were Federal associations and the remainder were State-chartered institutions. The former group accounted for \$7.1 billion, or nearly 50 percent, of the \$14.7 billion of total assets of all the associations.

TABLE 10.—Types of assets held by savings and loan associations as of Dec. 30, 1950, and for federally insured associations, types of real-estate loans held as of Dec. 30, 1950, and income dividends and undivided reserves and profits in 1950

I. ASSETS OF ALL SAVINGS AND LOAN ASSOCIATIONS AND INSURED SAVINGS AND LOAN ASSOCIATIONS AS OF DEC. 30, 1950

[Dollar amounts in millions]		
Item	All savings and loan associations	Insured savings and loan associations
Total assets.....	¹ \$16, 925	\$13, 644
First-mortgage loans.....	\$13, 810	\$11, 153
Cash.....	\$913	\$800
U. S. Government obligations.....	\$1, 491	\$1, 202
Number of associations.....	5, 980	2, 860

II. FEDERALLY INSURED AND CONVENTIONAL FIRST-MORTGAGE LOANS HELD BY INSURED SAVINGS AND LOAN ASSOCIATIONS, DEC. 30, 1950

[Dollar amounts in millions]	
Total first-mortgage loans.....	² \$11, 188
Federally insured:	
VA-guaranteed loans.....	\$733
FHA-insured loans.....	2, 507
Total.....	3, 241
Conventional loans.....	7, 947

III. INCOME, DIVIDENDS, AND UNDIVIDED PROFITS OF INSURED SAVINGS AND LOAN ASSOCIATIONS, FOR THE YEAR ENDED DEC. 30, 1950

[Dollar amounts in thousands]	
Net income.....	\$411, 347
Dividends.....	262, 781
Undivided profits and reserves.....	148, 566

¹ Preliminary.
² The difference between this figure and the comparable category shown in pt. I is due to differences in accounting methodology.
Sources: Statistical Summary, 1951, Home Loan Bank Board, pp. 8 and 14; Operational Analysis Section, Home Loan Bank Board.

Not all of the earnings of savings and loan associations are distributed in the form of cash or credited to the shareholders' accounts. Some earnings are set aside in various reserve accounts, and some are

retained as undivided profits. At the end of 1949, the general reserves and undivided profits of all savings and loan associations in the United States amounted to \$1.1 billion. This was over 7.5 percent of the \$14.7 billion of private savings invested in these institutions.

Most of the assets of savings and loan associations take the form of mortgage loans, usually on residential properties. Thirty years ago, this type of loan accounted for over 90 percent of the assets of these institutions; today, the percentage is somewhat lower, although mortgage loans represented 80 percent of all assets held at the end of 1950. Table 10 shows for 1950 the types of assets held by savings and loan associations at the end of the year 1950, and in the case of federally insured associations, the types of mortgage loans held at the end of the year and the net income, dividends, and additions to undivided profits during the year. The table indicates that these associations have a much larger portion of their assets invested in real-estate mortgages than is true in the case of commercial banks. However, this can be attributed to the fact that since the deposits of savings and loan associations are almost exclusively time deposits, it is possible for them to invest most of their funds in nonliquid assets. The majority of the deposits of commercial banks, on the other hand, are demand deposits requiring greater liquidity in their investments. It should also be noted that, as in the case of the mutual savings banks, nearly one-third of the mortgage loans of the building and loan associations, in terms of value, are insured or guaranteed by the Veterans' Administration or the Federal Housing Administration.

In the early days of these institutions, the transactions of the associations were confined to members, and no one could participate in the benefits they afforded without becoming a shareholder. Individuals became investing members of these organizations in the expectation of ultimately becoming borrowing members as well. Membership implied not only regular payments to the association for a considerable period of time, but also risk of losses. Members could not cancel their memberships or withdraw their shares before maturity without incurring heavy penalties. The fact that the members were both the borrowers and the lenders was the essence of the "mutuality" of these organizations.

Although many of the old forms have been preserved to the present day, few of the associations have retained the substance of their earlier mutuality. The steady decline in the proportion of share-accumulation loans is evidence that the character of these organizations has changed. More and more, investing members are becoming simply depositors, while borrowing members find dealing with a savings and loan association only technically different from dealing with other mortgage lending institutions in which the lending group is distinct from the borrowing group. In fact, borrowers ordinarily have very little voice in the affairs of most savings and loan associations.

One characteristic of the earlier mutuality which remains is the absence of capital stock. However, the character of the organization has been modified by the practice of paying more or less fixed rates of return on shares, and of building up substantial surplus accounts to protect shareholders against the risk of losses.

Savings and loan associations at present are exempt from income tax under section 101 (4) of the code. In addition, Federal savings and

loan associations which are chartered by the Federal Government are exempt from income tax under the Home Owners' Loan Act of 1933 and are covered by subsection (15) of section 101 of the code providing for the exemption of United States instrumentalities.

Section 313 of your committee's bill removes the exemption of savings and loan associations, including Massachusetts cooperative banks, and those chartered by the Federal Government and taxes them as ordinary corporations. However, it specifically allows the deduction for dividends paid to depositors and the amounts placed in bad-debt reserves on basis similar to that provided for mutual savings banks. This provision is effective with respect to taxable years beginning after December 31, 1951.

• The grounds on which your committee's bill taxes savings and loan associations on their retained earnings, after making a reasonable allowance for additions to reserves for bad debts, are the same as those on which mutual savings banks are taxed under the bill. Moreover, since savings and loan associations are no longer self-contained cooperative institutions as they were when originally organized there is relatively little difference between their operations and those of other financial institutions which accept deposits and make real-estate loans.

The principal argument that a savings and loan association does not really have income which could be taxed is based on the theory that both the borrowers and the investors are members of the association and that the interest paid by the borrowers on their loans is really only paid to themselves as members of the association. In other words, it is argued that the mutuality of the borrowing and the investing members is such that no income exists.

The mutuality argument assumes that in the long run, the investments of each member are equal to the debts he has owed the organization. It also assumes that the membership in each organization is fixed and that eventually each member will receive a proportionate share of the accumulated earnings of the organization. These assumptions might have been valid for the original savings and loan associations which terminated after they had fulfilled their purposes for the original membership groups. They are not generally valid, however, for the present-day associations, where investing members may never contemplate becoming borrowers and where the organizations are permanent and a member has no right to a share in the undistributed earnings upon withdrawal.

Another basis on which it is argued that the savings and loan associations do not have income is that all their receipts are either paid out as expenses or as dividends to members or accumulated for the mutual benefit of the members. However, an individual member or depositor has no claim to a share of the accumulated earnings unless he remains in the organization until its dissolution. The idea that income of a savings and loan association belongs to a member even though it is not paid to him or allocated to his account is a more extreme concept of cooperative ownership than that used by cooperatives.

The income which is added to reserves and undivided profits by the savings and loan associations cannot be treated as income to a member or depositor for income-tax purposes under the doctrine of constructive receipt because the member cannot obtain it unless he remains a member of the association until it is dissolved. It is

income of the associations. The fact that it is retained for the benefit of the members makes it analogous to the income retained by an ordinary taxable corporation for the benefit of its stockholders.

C. UNRELATED BUSINESS INCOME OF GOVERNMENT COLLEGES AND UNIVERSITIES

The Revenue Act of 1950 imposed the regular corporate income tax on certain tax-exempt organizations which are in the nature of corporations with respect to so much of their income as arises from active business enterprises which are unrelated to the exempt purposes of the organization (including certain "lease-back" income). However, the present provision does not apply to such income of State universities and other schools of governmental units. It has been called to the attention of your committee that some State schools are engaging in unrelated activities and "lease-backs" which would be taxable if they were not a State or its instrumentality. It is clear that the same opportunities for unfair competitive advantage exist in connection with these activities of State universities as with respect to similar activities of other educational institutions. Therefore, section 338 of your committee's bill extends the present tax to the unrelated business income of universities and colleges of States and of other governmental units. As a result governmental universities and colleges will be taxable on income derived from any unrelated business activities carried on by the schools themselves (including the income derived from leases for over 5 years of property purchased with borrowed funds), and also their "feeder" corporations carrying on a trade or business will be fully taxable.

This amendment is effective with respect to taxable years beginning after December 31, 1951.

The House bill contained no similar provision.

The revenue gain from this provision is expected to be small.

D. EDUCATIONAL "FEEDER" CORPORATIONS

The Revenue Act of 1950 included a series of provisions which, under specified conditions, resulted in the imposition of taxes on educational, charitable, and certain other tax-exempt organizations, foundations, and trusts. Among these provisions was one which for 1951 and subsequent years specifically denied exemption to "feeder" corporations, that is, corporations carrying on a trade or business for profit whose profits inure exclusively to organizations exempt under section 101 of the code. With respect to prior years the tax status of such corporations was then in litigation. With respect to these years the Revenue Act of 1950 provided that no tax would be asserted for years prior to 1947 unless a deficiency had already been asserted, or taxes had already been assessed or paid. Your committee believes undue hardship would arise if any of these educational feeder corporations were required to pay taxes on income which had already been spent to carry on educational programs.

Therefore, both section 601 of your committee's bill and section 501 of the House bill amend section 302 of the Revenue Act of 1950 to provide that for years prior to 1951 exemption is not to be denied

feeder corporations if their profits inure to a regularly established school, college, or university.

This provision is expected to have no permanent effect on revenues.

VI. STRUCTURAL CHANGES IN THE INCOME TAXES

A. PROVISIONS IN THE HOUSE BILL ALSO IN YOUR COMMITTEE'S BILL

1. *Life-insurance companies*

In section 401 of the Revenue Act of 1950 the formula used for computing the net income of life-insurance companies was amended, the action being effective only for 1949 and 1950. This action was necessitated by the fact that the formula set up in the Revenue Act of 1942 resulted in no tax being due from any company on its life-insurance-investment income for the years 1947 and 1948. The substitute formula provided for 1949 and 1950 was intended to be a stopgap which would terminate the tax-exempt status of this type of income and permit the completion of the study needed for the development of a permanent solution to the problem of the taxation of life-insurance companies.

Section 311 of the House bill applies the stopgap formula to life-insurance-investment income for 1951. This was deemed necessary because, although considerable progress has been made in the study of the problems of the proper taxation of life-insurance companies, a reasonable and acceptable solution to many of the problems has not yet been developed, and it is generally recognized that the formula set up in the Revenue Act of 1942 is defective. Although that formula would no longer have resulted in a tax-free status for life-insurance companies in 1951, because the yield on life-insurance investments has somewhat increased and the average rate of interest required to maintain the life-insurance reserves has decreased, the revenue which would have been obtained under that formula is, because of its defective nature, only about half that which would be obtained for 1951 by a continuation of the use of the stopgap formula.

During the hearings conducted by your committee, representatives of almost all the life-insurance companies presented a proposal which in their view is a reasonable and adequate method of taxing the income of those companies. In your committee's bill that plan is substituted for the stopgap formula as provided in the House bill, as the method for determining the income-tax liability of life-insurance companies for 1951.

Under the stopgap formula, as used for 1949 and 1950 and as provided for 1951 in the House bill, the taxable income of each life-insurance company relating to its life-insurance business is determined by deducting from its net investment income a percentage of that income. To that amount is added an amount—3¼ percent of the unearned premiums and unpaid losses—reflecting the taxable income of its accident and health business, if any. Appropriate adjustments are made with respect to exempt interest and the credit for dividends received. The normal tax is obtained by applying the ordinary corporation normal tax rate to that entire amount, and the surtax is obtained by applying the ordinary surtax rate to that portion in excess of \$25,000. The percentage to be deducted in arriving at the taxable income is the same for all life-insurance companies, and is

determined and proclaimed for each year by the Secretary of the Treasury, by comparing the aggregate amount needed in the previous year by all life-insurance companies to meet their life insurance policy obligations and any other interest on indebtedness with the aggregate net investment income of all life-insurance companies less $3\frac{3}{4}$ percent of the unearned premiums and unpaid losses of those companies which had health and accident insurance. For 1950 this percentage, based on 1949 data, was slightly more than 90 percent; for 1951, based on 1950 data, it would probably be between 87 and 88 percent.

Section 335 of your committee's bill substitutes a different formula for the taxation of life insurance companies in 1951. Under it the income tax is in general to be $3\frac{3}{4}$ percent of so much of the net investment income of each company as is not in excess of \$200,000, and $6\frac{1}{2}$ percent of the amount over \$200,000. It will be noted that $3\frac{3}{4}$ percent of \$200,000 is approximately the same as 27 percent of \$25,000; and that $6\frac{1}{2}$ percent of net investment income is approximately the same as 52 percent of 12 to 13 percent (100 percent less 88 or 87 percent) of the entire net income. For those companies with accident and health insurance an appropriate adjustment is made so that the tax computed at the $3\frac{3}{4}$ - and $6\frac{1}{2}$ -percent rates is approximately the same as a tax at the ordinary 27- and 52-percent rates on the income (determined as before) from that part of their business. As under the present stopgap formula, appropriate adjustments are made for exempt interest and the credit for dividends received.

Since the new formula, under the circumstances of 1951, is substantially equivalent to the stopgap formula, it is clear that, for most life-insurance companies, the income-tax liability under your committee's bill will be substantially the same for 1951 as it would be under the provisions of the House bill.

It is expected that a number of companies, mostly small, will not in 1951 earn their interest requirements, or will earn an amount only slightly in excess of their requirements. Under the stopgap formula these companies would have paid ordinary corporation normal taxes and surtaxes on the same percentage of their net investment incomes as the other companies whose net investment income materially exceeded their policy requirements. Under your committee's bill a measure of relief is accorded such companies: those with net investment income less than their policy requirements will, in general, pay a tax at $3\frac{3}{4}$ or $6\frac{1}{2}$ percent on only 50 percent of their net investment incomes, while those with net investment incomes of from 100 to 105 percent of their policy requirements will pay a tax at the rate of $3\frac{3}{4}$ or $6\frac{1}{2}$ percent on amounts varying from 50 to 100 percent of their net investment incomes. With respect to companies which also do an accident and health insurance business, in determining whether or not their net investment income is less than that required to meet their life-insurance-policy requirements, or not more than 105 percent of that amount, the total net investment income is reduced by one-half of $3\frac{3}{4}$ percent of their unearned premiums and unpaid losses on the accident and health policies. The limitation of this reduction to one-half of the adjustment for such business appears to be reasonable since, as was stated in the report on the 1942 provisions by the Committee on Finance,¹³ "there is very little investment income derived from the investment of premiums on such (accident and health) contracts."

¹³ 77th Cong., 2d sess., S. Rept. No. 1631, p. 148.

It is believed that the method of taxation provided by your committee's bill is not only more equitable with respect to certain of the smaller companies which do not earn a margin of investment income over their requirements but also that it is simpler in structure and involves fewer compliance and administrative difficulties than the stopgap formula provided in the House bill.

It has been suggested that this new method of taxing life-insurance companies should be used permanently, or for an indefinite period in the future. It is the opinion of your committee, however, that the question whether this new method is the best practicable method should only be answered after the results of the present continuing study are available, and after this method is carefully compared with other possible methods of taxing life-insurance companies which may be suggested as the results of that study. Therefore, in your committee's bill, the application of this method is limited to taxable years beginning in 1951.

It is estimated that for 1951 the revenue under your committee's bill will be about \$111 million, an amount about \$58 million more than would be obtained under the 1942 formula.

2. Offset of short- and long-term capital gains and losses

Section 322 of this bill amends the treatment of the gains and losses of individuals so as to eliminate a defect in existing law. This section is identical to section 305 of the House bill. Present law excludes 50 percent of a long-term capital gain or loss from the computation of net capital gain, net capital loss and net income, but includes 100 percent of a short-term capital loss in such computations. As a result a \$1 short-term loss can wipe out a \$2 long-term gain.

Under the bill long-term gains are included in gross income at 100 percent and a deduction from gross income is allowed equal to 50 percent of the amount by which the taxpayer's net long-term gain exceeds his net short-term loss. Thus, if a taxpayer has a net long-term gain of \$1,000 and a net short-term loss of like amount, no deduction is to be allowable. If the net long-term gain is \$2,000 and the net short-term loss is \$1,000, the deduction against gross income will be 50 percent of the excess of \$2,000 over \$1,000, or \$500. Hence the amount actually taxed as a long-term capital gain will be \$500. Under existing law the \$1,000 of short-term loss offsets the portion of the long-term gain included in the calculation of net income, and no tax liability exists.

Long-term losses, like long-term gains, are to be taken into account in full. Long-term losses will therefore offset short-term gains on a dollar-for-dollar basis, just as short-term losses will offset long-term gains. If long-term losses exceed short-term gains, the unreduced excess will be offset against other income up to \$1,000. The net loss which is not absorbed in this manner will be carried forward as a short-term capital loss, whether arising out of short- or long-term operations.

Under both your committee's bill and the House bill, the amendment applies only to taxable years beginning on or after the date of enactment of this act.

It is estimated that when fully effective this amendment will increase the revenues by \$28 million annually.

3. Collapsible corporations

Section 326 of this bill, which is identical to section 308 of the House bill, amends section 117 (m) of the Code, which denies capital-gains treatment to the sale, exchange, or retirement of stock in a "collapsible corporation," so as to extend the application of this section to cases where the corporation is used as a device for converting inventory profits into capital gains. Section 117 (m) was added to the code by the Revenue Act of 1950 to forestall the use of the collapsible corporation as a device for converting ordinary income into long-term capital gain. At that time it was believed that the collapsible corporation was used principally in the motion-picture and building-construction industries. The reports on the bill which became the Revenue Act of 1950 illustrated the device by the case of a corporation organized for the production of a single motion picture. Upon the completion of the film, but prior to the realization by the corporation of any income therefrom, the corporation would be liquidated and its asset distributed. No tax would be paid by the corporation because it had realized no income. Each former shareholder would pay a tax upon the difference between the cost of his stock and the fair market value of his portion of the fair market value of the motion picture and any other assets so distributed. Prior to the Revenue Act of 1950 this gain might have been taxed as a long-term capital gain with a maximum effective rate of 25 percent; under the law as amended by that act the gain is now taxed as ordinary income.

The collapsible corporation was also illustrated with cases in which a corporation set up to construct a building was liquidated and the rights in the building were sold by the former stockholders acting as individuals.

Because the device of the collapsible corporation was believed to be used largely in these two cases, section 117 (m) was drafted so as to apply when the corporation was "formed or availed of principally for the manufacture, construction, or production of property."

It is now understood that the collapsible-corporation device has also been used in an attempt to convert into capital gains the profits on inventory and stock in trade. The procedure used is to transfer a commodity to a new or dormant corporation, the stock of which is then sold to the prospective purchaser of the commodity who thereupon liquidates the corporation. In this manner the accretion in the value of the commodity, which in most of the actual cases has been whisky, is converted into a gain realized on the sale of stock of a corporation, thus creating the possibility that it might be taxed as a long-term capital gain.

To prevent the use of the collapsible corporation in cases of this type, section 117 (m) is extended by both bills to corporations formed or availed of principally for the purchase of property which is inventory or stock in trade in the hands of the corporation.

This amendment applies with respect to taxable years ending after August 31, 1951, but will only apply to gains realized after that date. The House provision applies to taxable years beginning after December 31, 1950. The determination of the tax treatment of gains realized in taxable years beginning prior to September 1, 1951 (January 1, 1951, under the House bill), will be made as if this section had not been enacted and without inferences drawn from the fact that the

amendment made in this bill is not specifically retroactive and without inferences drawn from the limitations contained in section 117 (m) as amended by section 326 of this bill.

It is estimated that in a full year's operations this provision will increase the revenues by \$5 million.

4. Dealers in securities

Under existing law, dealers in securities are permitted to hold some securities as a personal investment. Gains or losses on those securities which are held by the taxpayer in his capacity as a dealer are treated as ordinary income. Capital gain or loss treatment is accorded the results of the transfer of securities which the taxpayer holds as an investor. Existing law also permits the transfer of securities from such a taxpayer's investment account to his inventory account and vice versa with corresponding changes in tax liabilities. These transfers increase the difficulty of determining in which portfolio specific securities are actually held, and facilitate the manipulation of the taxpayer's accounts so as to obtain ordinary loss treatment on securities sold at a loss and capital-gains treatment on those sold at a gain.

To forestall this practice, section 327 of this bill, which is substantially the same as section 309 of the House bill, provides that in the case of a dealer in securities capital-gains treatment be available only under certain specific conditions. The security in question must have been clearly identified in the dealer's records as "a security held for investment" within a period of 30 days after the date of its acquisition or after the date of enactment of the Revenue Act of 1951, whichever is later, and must not at any time thereafter have been held by the taxpayer "primarily for sale to customers in the ordinary course of his trade or business." Unless these terms are complied with, the gain on the sale of the security is to be taxed as ordinary income.

Ordinary loss treatment is not to apply where the security sold was, at any time after this section becomes applicable, clearly identified in the dealer's records as "a security held for investment."

Your committee has changed the House provision to insure that this amendment will not affect the application of section 117 (i) of the Code which provides, in the case of banks, that, if losses from the sale of all securities during a year exceed the gains, then the net loss shall be treated as an ordinary loss.

The amendment applies to sales or exchanges made more than 30 days after the date of enactment of this act.

The revenue loss resulting from this amendment is expected to be negligible.

5. Gain from sale or exchange of the taxpayer's residence

Section 318 of your committee's bill and section 305 of the House bill are the same except in one respect. Both sections amend the present provisions relating to a gain on the sale of a taxpayer's principal residence so as to eliminate a hardship under existing law which provides that when a personal residence is sold at a gain the difference between its adjusted basis and the sale price is taxed as a capital gain. The hardship is accentuated when the transactions are necessitated by such facts as an increase in the size of the family or a change in the place of the taxpayer's employment. In these situations the transaction partakes of the nature of an involuntary conversion. Cases of this type are particularly numerous in periods of rapid change such

as mobilization or reconversion. For this reason the need for remedial action at the present time is urgent.

Both bills provide that when the sale of the taxpayer's principal residence is followed within a period of 1 year by the purchase of a substitute, or when the substitute is purchased within a year prior to the sale of the taxpayer's principal residence, gain is to be recognized only to the extent that the selling price of the old residence exceeds the cost of the new one. Thus, if a dwelling purchased in 1940 for \$10,000 is sold in 1951 for \$15,000, there would ordinarily be a taxable gain of \$5,000 under existing law. Under both bills no portion of the gain is to be taxable provided a substitute "principal residence" is purchased by the taxpayer within the stated period of time for a price of \$15,000 or more. If the replacement cost is less than \$15,000, say \$14,000, the amount taxable as gain is to be \$1,000.

The provision of both your committee's bill and the House bill applies to cases where one residence is exchanged for another, where a replacement residence is constructed by the taxpayer rather than purchased, and where the replacement is a residence which had to be reconstructed in order to permit its occupancy by the taxpayer. However, under the House bill, where a replacement residence is constructed by the taxpayer, he must occupy the new residence within 1 year after sale of his old residence. This is the same rule which both your committee's bill and the House bill apply in the case of the purchase of a new residence. However, in the case of new construction the requirement of occupancy within 1 year appears to your committee not to be realistic, particularly during the present period of material and labor shortages. Therefore, your committee's bill provides that in the case of the construction of a new house, if the construction of the house begins within a year before or after the sale of the first house, and the new house is used as the taxpayer's principal residence within 18 months after the sale of the first house, then all expenditures on the new residence within this 18-month period are to be considered as a reinvestment of the selling price of the first residence.

In cases where the replacement is built or reconstructed, only so much of the cost is to be counted as an offset against the selling price of the old residence as is properly chargeable against capital account within a period beginning 1 year prior to the date of the sale of the old residence and ending 18 months (1 year under the House bill) after such date in the case of construction of a new house, and 12 months after such date in the case of reconstruction of an existing house.

This special treatment is not limited to the "involuntary conversion" type of case, where the taxpayer is forced to sell his home because the place of his employment is changed. While the need for relief is especially clear in such cases, an attempt to confine the provision to them would increase the task of administration very much.

The adjusted basis of the new residence is to be reduced by the amount of gain not recognized upon the sale of the old residence. Thus, if the replacement is purchased for \$19,000, the old residence cost \$10,000 and was sold for \$15,000, the adjusted basis of the new residence is to be \$19,000 minus \$5,000, or \$14,000. This is equal to the cost of the old residence plus the additional funds invested at the time the new residence is purchased. If the second residence had

been purchased for \$14,000, so that \$1,000 of gain on the sale of the old residence would be recognized, its basis would be \$14,000 minus \$4,000, or \$10,000.

For the purpose of qualifying a gain as a long-term capital gain the holding period of the residence acquired as a replacement in a set of transactions which qualify under the terms of the amendment is to be the combined period of ownership of the successive principal residences of the taxpayer.

The new provision extends to cases in which similar treatment is available under existing law under the involuntary-conversion provisions of section 112 (f). Such cases arise when a home is destroyed by fire or is lost by seizure or by the exercise of the powers of requisition or condemnation and the proceeds are invested in a replacement. In such cases the new provision, and not section 112 (f), is to apply. Generally this will result in more favorable treatment for the taxpayer than that available under the involuntary-conversion provisions. The latter require the tracing of the expenditure of the funds obtained as a result of the loss of the previous residence, and substantial tax consequences result from such technicalities as a decision to use the money so received to repay a mortgage on the previous residence and to use other funds for the purchase of a replacement. Moreover, no relief is available under the involuntary-conversion sections in cases where the replacement is acquired before the actual condemnation or requisition of the previous residence.

The taxpayer is not required to have actually been occupying his old residence on the date of its sale. Relief is to be available even though the taxpayer moved into his new residence and rented the old one temporarily before its sale. Similarly, he may obtain relief even though he rents out his new residence temporarily before occupying it.

The special treatment is to be available only with respect to one sale or exchange per year, except when the taxpayer's new residence is involuntarily converted, in which case he is to be treated as though a year had elapsed since the time of the previous sale of an old residence.

The ownership of stock in a cooperative apartment corporation is to be treated as the equivalent of ownership of a residence, provided the purchaser or seller of such stock uses the apartment which it entitles him to occupy as his principal residence.

Regulations are to be issued under which the taxpayer and his spouse acting singly or jointly may obtain the benefits of the bill even though the spouse who sold the old residence was not the same as the one who purchased the new one, or the rights of the spouses in the new residence are not distributed in the same manner as their rights in the old residence. These regulations are to apply only if the spouses consent to their application and both old and new residence are used by the taxpayer and his spouse as their principal residence.

Where the taxpayer's residence is part of a property also used for business purposes, as in the case of an apartment over a store building or a home on a farm, and the entire property is sold, the provisions of both bills apply only to that part of the property used as a residence, including the environs and outbuildings relating to the dwelling but not to those relating to the business operations.

These provisions apply to a trailer or houseboat if it is actually used as the taxpayer's principal residence.

In order to protect the Government in cases where there is an unreported taxable gain on the sale of the taxpayer's residence, either because he did not carry out his intention to buy a new residence or because some of the technical requirements were not met, the period for the assessment of a deficiency is extended to 3 years after the taxpayer has notified the Commissioner either that he has purchased a new residence, or that he has not acquired or does not intend to acquire a new residence within the prescribed period of time.

The benefits of both your committee's bill and the House bill will apply to the sale of a taxpayer's principal residence made after December 31, 1950.

The revenue loss will be about \$112 million annually.

6. Percentage depletion

Under existing law depletion based on cost is available to all mining industries and in addition percentage depletion is available to oil, gas, sulfur, metal mines, and certain nonmetallic minerals. The allowable rate of percentage depletion is 5 percent in the case of coal, and 15 percent in the case of the other nonmetallic minerals except sulfur which is allowed 23 percent.

The testimony received by this committee both in connection with this bill and the bill which became the Revenue Act of 1950 revealed that in a number of cases nonmetallic minerals which are not in the enumerated group under existing law are competitive with those receiving percentage depletion, or have just as good a claim for such treatment as the enumerated minerals. The testimony also indicated that the 5-percent rate allowed coal is of little practical value, and that the coal mining industry is peculiarly in need of more favorable tax treatment because of the inroads which alternative sources of energy, particularly oil and gas, have made on the potential markets of coal.

Both section 319 of your committee's bill and section 304 of the House bill set up a new group of minerals to which percentage depletion is available at the rate of 5 percent. Both bills extend this rate to sand, gravel, slate, stone (including pumice and scoria), brick and tile clay, shale, oyster shell, clam shell, granite, and marble. In addition, your committee has added to this category entitled to the 5-percent rate sodium chloride, and, if from brine wells, calcium chloride, magnesium chloride, potassium chloride, and bromine. In the allowance of percentage depletion for these items, your committee does not intend to reduce allowances now granted. For example, potash is allowed percentage depletion at 15 percent under present law, and your committee does not intend to reduce this allowance with respect to potash or any of its salt derivatives which are presently receiving percentage depletion at 15 percent. The bill also makes a technical change in this portion of the House provision by including slate as a separate item rather than including it as a type of stone as in the House bill.

The House bill also included asbestos at the new 5-percent rate. Because of the importance of this product and the smallness of its supply in this country, your committee has allowed asbestos a 10-percent rate. Both bills increase coal from its present 5-percent rate to 10 percent.

The House bill added to the list of nonmetallic minerals, to which percentage depletion is available at a 15-percent rate, borax, fuller's earth, tripoli, refractory and fire clay, quartzite, perlite, diatomaceous earth, and metallurgical and chemical grade limestones. Your committee's bill, on the other hand, provides that these items added by the House are to receive percentage depletion at the same 10-percent rate accorded coal and asbestos. In addition to these items, your committee has added a 10-percent rate for wollastonite, which is important as an insulating and fireproofing material and thus competitive with other items presently accorded similar treatment, and the magnesium compounds magnesite, dolomite, and brucite.

Your committee's bill adds to the nonmetallic minerals presently receiving 15-percent depletion, aplite. This material, which is found in only small quantities in this country, is closely related to feldspar, which already receives 15-percent depletion.

Your committee has also made two technical revisions in the 15-percent depletion section of the House bill. The latter includes at the 15-percent rate "thenardite (including thenardite from brines or mixtures of brine)." Your committee has eliminated the parenthetical limitation as unnecessary and because it might give rise to doubt as to certain other of the enumerated products. For example potash, trona, and borax are also frequently recovered from brines or mixtures of brine. The phrase "mines and other natural deposits" is clearly broad enough to include brines as well as all other natural sources. The particular type of source is immaterial.

The names of all the various enumerated minerals are of course intended to have their commonly understood commercial meaning. For example, the term "thenardite" applies to sodium sulphate, also known as salt cake; the term "trona" to sodium carbonate and sodium bicarbonate, also known as soda ash; and the term "borax" to boron minerals generally.

Your committee has also amended the House provision which reads "ball and sagger clay" to read "ball clay, sagger clay" in order to remove the implication of the House bill that these are not separate types of clay.

Many of the above changes were provided in the House version of the bill which became the Revenue Act of 1950 but they were eliminated by your committee and from the final legislation largely because of the revenue loss involved. It is apparent, however, that the need for equalization is substantially greater now because of the additional taxes imposed under the legislation of 1950 and under this bill. Therefore, the committee believes that the proposed extension of the percentage depletion system is necessary in spite of the revenue loss involved. The latter is estimated to be about \$76 million in a full year's operation.

The amendments made by this section of the bill apply to taxable years beginning after December 31, 1950.

7. Family partnerships

Section 339 of your committee's bill is intended to harmonize the rules governing interests in the so-called family partnership with those generally applicable to other forms of property or business. Two principles governing attribution of income have long been accepted as basic: (1) income from property is attributable to the owner of the

property; (2) income from personal services is attributable to the person rendering the services. There is no reason for applying different principles to partnership income. If an individual makes a bona fide gift of real estate, or of a share of corporate stock, the rent or dividend income is taxable to the donee. Your committee's amendment makes it clear that, however the owner of a partnership interest may have acquired such interest, the income is taxable to the owner, if he is the real owner. If the ownership is real, it does not matter what motivated the transfer to him or whether the business benefited from the entrance of the new partner.

Although there is no basis under existing statutes for any different treatment of partnership interests, some decisions in this field have ignored the principle that income from property is to be taxed to the owner of the property. Many court decisions since the decision of the Supreme Court in *Commissioner v. Culbertson* (337 U. S. 733) have held invalid for tax purposes family partnerships which arose by virtue of a gift of a partnership interest from one member of a family to another, where the donee performed no vital services for the partnership. Some of these cases apparently proceed upon the theory that a partnership cannot be valid for tax purposes unless the intrafamily gift of capital is motivated by a desire to benefit the partnership business. Others seem to assume that a gift of a partnership interest is not complete because the donor contemplates the continued participation in the business of the donated capital. However, the frequency with which the Tax Court, since the *Culbertson* decision, has held invalid family partnerships based upon donations of capital, would seem to indicate that, although the opinions often refer to "intention," "business purpose," "reality," and "control," they have in practical effect reached results which suggest that an intrafamily gift of a partnership interest, where the donee performs no substantial services, will not usually be the basis of a valid partnership for tax purposes. We are informed that the settlement of many cases in the field is being held up by the reliance of the field offices of the Bureau of Internal Revenue upon some such theory. Whether or not the opinion of the Supreme Court in *Commissioner v. Tower* (327 U. S. 280) and the opinion of the Supreme Court in *Commissioner v. Culbertson* (337 U. S. 733), which attempted to explain the *Tower* decision, afford any justification for the confusion is not material—the confusion exists.

The amendment leaves the Commissioner and the courts free to inquire in any case whether the donee or purchaser actually owns the interest in the partnership which the transferor purports to have given or sold him. Cases will arise where the gift or sale is a mere sham. Other cases will arise where the transferor retains so many of the incidents of ownership that he will continue to be recognized as a substantial owner of the interest which he purports to have given away, as was held by the Supreme Court in an analogous trust situation involved in the case of *Helvering v. Clifford* (309 U. S. 351). The same standards apply in determining the bona fides of alleged family partnerships as in determining the bona fides of other transactions between family members. Transactions between persons in a close family group, whether or not involving partnership interests, afford much opportunity for deception and should be subject to close scrutiny. All the facts and circumstances at the time of the purported

gift and during the periods preceding and following it may be taken into consideration in determining the bona fides or lack of bona fides of a purported gift or sale.

Not every restriction upon the complete and unfettered control by the donee of the property donated will be indicative of sham in the transaction. Contractual restrictions may be of the character incident to the normal relationships among partners. Substantial powers may be retained by the transferor as a managing partner or in any other fiduciary capacity which, when considered in the light of all the circumstances, will not indicate any lack of true ownership in the transferee. In weighing the effect of a retention of any power upon the bona fides of a purported gift or sale, a power exercisable for the benefit of others must be distinguished from a power vested in the transferor for his own benefit.

Since legislation is now necessary to make clear the fundamental principle that, where there is a real transfer of ownership, a gift of a family partnership interest is to be respected for tax purposes without regard to the motives which actuated the transfer, it is considered appropriate at the same time to provide specific safeguards—whether or not such safeguards may be inherent in the general rule—against the use of the partnership device to accomplish the deflection of income from the real owner.

Therefore, the bill provides that in the case of any partnership interest created by gift the allocation of income, according to the terms of the partnership agreement, shall be controlling for income-tax purposes except when the shares are allocated without proper allowance of reasonable compensation for services rendered to the partnership by the donor, and except to the extent that the allocation to the donated capital is proportionately greater than that attributable to the donor's capital. In such cases a reasonable allowance will be made for the services rendered by the partners, and the balance of the income will be allocated according to the amount of capital which the several partners have invested. However, the distributive share of a partner in the earnings of the partnership will not be diminished because of absence due to military service.

When more than one member of a family is a member of a partnership, all interests purchased by one member of the family from another will be treated as though the transfer were made by gift. For this purpose the family of an individual includes his spouse, ancestors, lineal descendants, and any trust for the primary benefit of such persons.

The amendment made by the House bill was made applicable only to taxable years beginning after December 31, 1950, with the express intention that no inferences were to be drawn from the enactment of the amendment with respect to taxable years beginning prior to January 1, 1951. Apparently with respect to prior taxable years the House amendment would have left the status of family partnerships to be determined under existing law. As the above discussion clearly indicates, the application of existing law has been extremely uncertain. Your committee believes that it is equally important to establish a rule which can be used with respect to those prior years, thus minimizing the necessity for litigation in this area. Therefore, your committee has provided that the amendment shall, at the election of any member of such a partnership, be effective with respect to any

open taxable year since December 31, 1938, that date being just prior to the enactment of the Code. Such an election will be valid only if any other members of the partnership whose taxable income would be increased consents to the assessment and collection of such deficiency, or if the taxpayer who would be entitled to a refund or reduction of his tax liability consents to the reduction of such refund or tax decrease by the amount of the related taxpayer's additional tax.

8. *Gains from sales of livestock*

Section 117 (j) of the code provides, in effect, that a net gain from sales of "property used in the trade or business" of a taxpayer and held for more than 6 months is to be treated as a capital gain. In the case of a loss, it is to be treated as an ordinary loss. However, section 117 (j) states that this treatment is not to apply to "property of a kind which would be properly includible in the inventory of the taxpayer if on hand at the close of the taxable year, or property held by the taxpayer primarily for sale to customers in the ordinary course of his trade or business." In the case of farmers there has been considerable confusion and dispute for several years as to whether all livestock held for draft, dairy, or breeding purposes is "property used in the trade or business," or whether in some cases the livestock should be deemed held "primarily for sale to customers in the ordinary course of his trade or business."

Rulings of the Treasury Department issued in 1944 and 1945 held that the capital gains treatment was applicable only in the case of unusual sales such as those which would reduce the normal size of the herd or those resulting from a change of breed or other special circumstances, and that the capital gains treatment would not apply to the customary sale by a farmer of old or disabled animals culled from the breeding herd and replaced by young animals produced by the breeding herd. Early in 1949 the United States Court of Appeals, Eighth Circuit, held in the *Albright* case (173 F. 2d 399) that animals used for breeding purposes, whether or not sold as culls in the ordinary course of business, constituted "property used in the trade or business" within the meaning of section 117 (j). That decision specifically applied to dairy cattle and hogs but was applicable by implication to other types of livestock.

Notwithstanding the *Albright* decision, the Treasury Department continued to adhere to its position initiated in the 1944 and 1945 rulings, pending possible contrary decisions in other courts which might result in a conclusive decision by the Supreme Court. The Revenue Act of 1950 as passed by the Senate contained a provision intended to clarify this situation, but this was rejected in conference, principally because it referred to "cattle" and thus did not clear up the situation with respect to other forms of livestock such as sheep and hogs. However, the conference committee expressed the hope that the Treasury would follow the *Albright* decision.

In January 1951 the United States Court of Appeals, Fifth Circuit, decided the *Bennett* case (186 F. (2d) 407) in a manner similar to the *Albright* decision. Subsequently the Bureau of Internal Revenue issued a ruling, Mim. 6660, stating that the capital gains treatment provided by section 117 (j) would be applied to sales of culls. However, this ruling contained a statement that this treatment might not be applied in the case of animals "not used for substantially their full

period of usefulness." This exception appears to have resulted in new uncertainties, and it has been stated that Bureau agents are interpreting this ruling to mean that only animals which have completely outlived their usefulness can qualify for the capital gains treatment.

The House bill added a new sentence to section 117 (j) (1) providing that the term "property used in the trade or business" includes "livestock held by the taxpayer for draft, breeding, or dairy purposes for 12 months or more." In view of the uncertainties resulting from the recent ruling (Mim. 6660), section 324 of your committee's bill restates the sentence contained in the House bill as follows:

Such term also includes livestock, regardless of age, held by the taxpayer for draft, breeding, or dairy purposes, and held by him for 12 months or more from the date of acquisition.

Under your committee's bill, the term "livestock" does not include poultry except that it does include turkeys, regardless of age, held by the taxpayer for breeding purposes and held for 12 months or more from the date of acquisition. Thus section 117 (j) will apply to livestock used for draft, breeding, or dairy purposes, and to turkeys used for breeding purposes, whether old or young; and the holding period will start with the date of acquisition, not with the date the animal or fowl is put to such use.

The provision of the House bill is effective with respect to taxable years beginning after December 31, 1950. Your committee's bill makes the amendment applicable with respect to taxable years beginning after December 31, 1941, except that the extension of the holding period from 6 to 12 months and the amendment with respect to poultry and turkeys both apply only in the case of taxable years beginning after December 31, 1950.

Your committee believes that the gains from sales of livestock should be computed in accordance with the method of livestock accounting used by the taxpayer and presently recognized by the Bureau of Internal Revenue.

The revenue loss under this provision is expected to be \$15 million in a full year of operation.

9. Coal royalties

Section 325 of your committee's bill, which is similar to section 307 of the House bill, provides tax relief for the recipients of coal royalties. Most leases on coal properties are long-term and call for royalty payments expressed in cents per ton. Therefore, the lessor does not receive the automatic adjustment for price changes which occurs when a royalty is expressed as a percentage of the value of the mineral extracted from the property. Many of the existing coal leases are old and their royalty payments are small.

It is reported also that as a practical matter the lessor of a coal property is not likely to benefit from percentage depletion even under the new 10-percent rate provided in this bill, although it is anticipated that this rate will be of material benefit to the coal operators.

This section extends to the recipients of coal royalties the capital gains treatment now available to timber under section 117 (k) (2) of the code. It is intended by this provision of your committee's bill that coal royalties receive the same treatment as timber royalties. In the case of timber coming under this section, percentage depletion

is not allowed, and it also is not to be available in the case of these coal royalties.

Considerable uncertainty now exists as to the proper interpretation of the clause "held for more than 6 months prior to such disposal" in section 117 (k) (2) of the present law, because of a recent decision of the Tax Court (*Springfield Plywood Corp.*, 15 T. C. No. 91) which held, under the particular facts in that case, that disposal of the timber occurred when the lease was made and not when the timber was cut. Your committee believes that, whatever the legal technicalities may be, the lessor's holding period should run to the time the coal is mined or the timber is cut, as the case may be, and the provisions of the House bill are amended to so provide.

In order to differentiate a lessor entitled to receive royalties from a person participating in the operation of a mine, the provisions of the House bill are inapplicable if the owner of the coal is "personally obligated to pay a share of the cost of mining operations." Since lessors who have no interest in the operating profits of a mine may nevertheless pay real estate taxes, exploration expenses, or other expenses, your committee's bill provides, instead, that those provisions shall be inapplicable to "income realized by the owner as a coadventurer, partner, or principal in the cutting of such timber or the mining of such coal."

It is also made clear that these provisions do not apply to a lessee, and that the term "coal" includes lignite.

Because treatment of coal royalties as capital gains will automatically exclude such income from income subject to excess-profits tax, your committee's bill provides conforming amendments to the excess profits tax law. Where the taxpayer computes his excess profits credit by the income method, these royalties are to be excluded from the taxpayer's base period income. Similarly, for the purposes of computing the invested capital credit and computing capital changes, the lessor's interest in the coal property from which the royalties are derived is to be treated as an inadmissible asset.

Section 325 applies to taxable years ending after December 31, 1950, but only with respect to amounts received or accrued after that date.

The revenue loss involved is estimated to be about \$10 million annually.

10. *Expenditures in the development of mines*

Under existing law and regulations all expenditures made with respect to a mine prior to the time it has reached the production stage must be capitalized, except that incidental income from the production of ore while the mine is being developed is offset by development expenditures, only the excess of such expenditures over such receipts being capitalized. Amounts so capitalized are deductible for income-tax purposes only through depletion allowances.

Included in the expenditures which must be so capitalized are the costs of shafts, tunnels, galleries, etc., which are necessary to make the ore or other mineral accessible. Such expenditures are required to be capitalized only until the mine reaches the production stage, which occurs when the major portion of the mineral production is obtained from workings other than those opened for the purpose of development, or when the principal activity of the mine becomes the

production of developed ore rather than the development of additional ores for mining.

After a mine reaches this production stage continued expenditures must be made to extend tunnels, galleries, etc., as the working face of the ore or other mineral recedes. Such expenditures are deductible currently, unless extraordinary in scope, in which case they are treated as prepaid expenses to be deducted ratably as the ore benefited by the expenditure is produced and sold.

It is believed that the expenditures for the development of a mine—those incurred after the existence of ores or minerals in commercially marketable quantities has been disclosed—are essentially similar to those incurred after the production stage has been reached, and, like those, should be treated as expenses relating to the production of the ore or minerals.

This is particularly important where the depletion allowance is a percentage of the gross income from the property. This allowance is the same whether a large expenditure or a relatively small one is necessary to develop the mine in order to enable the ore or mineral to be extracted, with the result that mines with relatively large development costs are subjected to unfair discrimination. Moreover, where percentage depletion is used, the development costs are never specifically deductible for tax purposes, except in years when the deduction available under cost depletion exceeds that which may be taken under percentage depletion.

The requirement that development expenditures must be capitalized presents a serious obstacle to expansion in the mining industry. This is especially serious at the present time because of the shortage of many essential minerals and the desirability of major developments in the case of certain minerals such as iron which are necessary to the defense effort.

The House bill provides that expenditures paid or incurred after December 31, 1950, in the development of a mine or other natural deposit are to be deductible ratably over the period during which the ores or minerals benefited by such expenditures are sold. This provision applies even though the ore or minerals were produced in a year other than the year of the sale. However, this rule applies only when the expenditures are made after the existence of ores or minerals in commercially marketable quantities has been determined and the development stage has begun. It is not applied to oil or gas wells, where the problem at issue has been dealt with through the optional deduction of intangible drilling and development costs in the year they are incurred.

Expenditures made for the purchase of depreciable property are not to be counted as development expenditures for this purpose but the depreciation charges which appear as the result of the use of such property for development purposes may qualify for such treatment as development costs.

Expenditures made for development will continue to increase the adjusted basis of the mine for computing gain or loss as under existing law; however, this basis will then be reduced as the deductions allowable under this provision of the House bill occur. Although thus included in the adjusted basis for the purpose of computing a gain or loss from a sale, in order to prevent duplication of tax benefits, such development expenditures are not to be taken into account in deter-

mining the adjusted basis of the property for the purpose of computing depletion based upon costs.

Your committee's bill retains the principle of the House bill. However, section 309 of your committee's bill provides that the taxpayer may elect either to deduct development expenditures, whether incurred before or after the production stage has been reached, in the year when they are incurred, or to treat development expenditures incurred before the production stage has been reached as deferred expenses, to be deducted ratably as the ore or mineral is sold. This second alternative is the same as under the House bill. Such an election may be made for each year, but must be for the total amount of net development expenditure made in that year with respect to the mine. As under the House bill, if the taxpayer elects to defer development expenditures the amount so deferred will be included in the basis of the mine for the purpose of determining a gain or loss on its sale, and the basis will be reduced as the deductions, allowable when ore or mineral is sold, are made.

Your committee's bill also provides that if the taxpayer elects to defer the deduction of development expenditures incurred during the development stage, the amount to be so deferred in any year will be the excess of the development expenditures in that year over the net receipts during that year from the ores or minerals produced.

This provision of your committee's bill is effective with respect to taxable years beginning after December 31, 1950.

It is estimated that in a full year's operation this provision will involve a revenue loss of about \$20 million annually.

11. Venture capital companies

Section 336 of this bill will permit certain so-called venture capital companies to qualify as regulated investment companies. Under Supplement Q of the code, regulated investment companies which distribute currently at least 90 percent of their income, and meet certain other tests set out in section 361 (b) of the code, are not taxed upon amounts distributed to shareholders. One of these tests is that the company must not invest more than 50 percent of its assets in companies in which it holds more than 10 percent of the value of the voting securities. This rule has the effect of denying special treatment to companies which undertake to control the enterprises in which the bulk of their funds are placed. It clearly excludes a holding company in the ordinary sense of the word.

It has been brought to the attention of this committee that the 10 percent stock-ownership limitation constitutes a serious impediment to the development of so-called venture capital companies. These are investment companies which are used principally to provide capital for other companies engaged in the development or exploitation of inventions, technological improvements, new processes and products which were not previously generally available. In such cases the investment company must provide most of the capital needed to finance the venture and will frequently hold more than 50 percent of its assets in stock representing more than 10 percent of the voting stock of the operating companies. As a result, it cannot qualify under Supplement Q if it invests more than 50 percent of its assets in such companies. Unless this rule is amended, it will not be possible for an investment company to devote itself principally to the development of such ventures and obtain the benefits of Supplement Q.

The venture capital company promises to serve as an instrument for directing an increasing portion of the current savings of the country into the small, innovating ventures which are so important for long-run economic progress. Therefore, section 336 of this bill amends section 361 of the code so as to permit venture capital companies to qualify as regulated investment companies. This is accomplished by waiving, under certain conditions, the 10 percent limitation as to certain types of holdings. To qualify for this exception the investment company must obtain a certification from the Securities and Exchange Commission which states that the investment company is a registered management investment company as defined in the Investment Company Act of 1940 and that its principal business is the furnishing of capital to companies principally engaged in the development or exploitation of inventions, technological improvements, new processes or products not previously generally available. This certification will be made under regulations to be issued by the Securities and Exchange Commission.

To forestall the possibility that this amendment will permit holding companies to obtain the benefits of Supplement Q, the bill also provides that the 10 percent rule shall not be waived in the case of an investment company which, at the close of the taxable year, has more than 25 percent of its funds invested in companies, the securities of which it has held for more than 10 years.

All the other limitations on regulated investment companies now imposed under Supplement Q are retained.

The House bill contains a provision which is substantially identical with section 336 of your committee's bill. Only minor, technical changes have been made in the House provision.

Section 336 is effective with respect to taxable years beginning after December 31, 1950. The revenue effect of this provision is negligible.

12. Additional withholding upon agreement by employer and employee

Frequently concern is expressed by taxpayers with income above the first surtax bracket because the entire amount of tax due is not withheld from their wages or salaries. They dislike the necessity of making a payment with their declaration of estimated tax in March, or the necessity of making quarterly payments. However, it is not feasible to establish a system of general application which will withhold the total tax due in all cases, because, as a result of such factors as variations in deductions and income not subject to withholding, the additional tax due differs widely from case to case.

In individual instances, however, where the taxpayer can estimate quite accurately the amount of the additional tax due and the employer finds the additional withholding is not burdensome, a voluntary system is feasible and would be a convenience to the taxpayer. For these reasons section 203 of your committee's bill, which is the same as section 223 of the House bill, amends section 1622 of the code to provide that additional withholding may be authorized by regulation where the employer and employee agree to it. No additional revenue is expected to be provided by this provision.

B. PROVISIONS ADDED BY YOUR COMMITTEE

1. Additional allowance for certain members of the Armed Forces

The Revenue Act of 1950 added a new section 22 (b) (13) to the code which excludes from taxable income the compensation of members of the Armed Forces of the United States received for active service in combat zones such as Korea. This exclusion covers all the pay of enlisted men and warrant officers and the first \$200 per month paid to commissioned officers. The present exclusion only applies to services performed after June 24, 1950, and prior to January 1, 1952.

Section 305 of your committee's bill makes two changes in the existing provision. First, the exemption is extended for 2 years beyond the present termination date to January 1, 1954. Second, the exemption is extended to include the compensation of military personnel received while hospitalized as a result of wounds, disease, or injury incurred while serving in a combat zone.

These amendments will result in a revenue loss of \$10 million annually until 1954.

The amendments made by your committee to section 22 (b) (13) are applicable to taxable years ending after June 24, 1950.

2. Sales of land with unharvested crops

Section 117 (j) of the code provides, in effect, that a net gain from sales of properties "used in the trade or business" of the taxpayer, including "real property" so used, if held more than 6 months is to be treated as a capital gain. In the case of a net loss, it is treated as an ordinary loss. Where unharvested crops are sold with the land, or unripe fruit is sold together with the land and the trees, a difficult question has arisen as to the proper application of the present law to the unharvested crops or the unripe fruit.

The Bureau of Internal Revenue has ruled that, whether or not such crops or fruit are regarded as a part of the real estate under local law, they constitute property held "primarily for sale to customers in the ordinary course of his (the taxpayer's) trade or business" and thus, under the provisions of section 117 (j), any gain on the sale of the unharvested crops or unripe fruit is to be separately determined and treated as ordinary income instead of as a capital gain. In several decisions the Tax Court (with some members dissenting) has taken a similar view, but two district courts have held that such fruits or crops constitute "property used in the trade or business" so that a gain from a sale of the land, trees, and fruit would be treated as a capital gain with the result that the entire gain from the sale of such property would constitute ordinary income.

Your committee believes that sales of land together with growing crops or fruit are not such transactions as occur in the ordinary course of business and should thus result in capital gains rather than in ordinary income. Section 323 of the bill so provides.

Your committee recognizes, however, that when the taxpayer keeps his accounts and makes his returns on the cash receipts and disbursements basis, the expenses of growing the unharvested crop or the unripe fruit will be deducted in full from ordinary income, while the entire proceeds from the sale of the crop, as such, will be viewed as a capital gain. Actually, of course, the true gain in such cases is the difference between that part of the selling price attributable to the

crop or fruit and the expenses attributable to its production. Therefore, your committee's bill provides that no deduction shall be allowed which is attributable to the production of such crops or fruit, but that the deductions so disallowed shall be included in the basis of the property for the purpose of computing the capital gain.

The provisions of this section are applicable to sales or other dispositions occurring in taxable years beginning after December 31, 1950.

The revenue loss under this provision is expected to be about \$3 million annually.

3. Elections to file joint or separate returns and to use the standard deduction

Under section 51 of the code, married taxpayers may file either separate returns or a single joint return. The election, once made, as to which type of return to file is binding with respect to the taxable year for which the return is filed.

Section 23 (aa) of the code permits an individual the use of an optional standard deduction in lieu of itemizing his deductions. The election to use either of these methods of handling deductions is likewise binding upon the taxpayer for the taxable year with respect to which the option is exercised.

As a proper election frequently requires informed tax knowledge not possessed by the average person, the binding elections referred to above may result in substantially excessive taxes. This result of making an improper election is particularly apt to occur during a period of high tax rates such as the present.

Your committee's bill contains two amendments directed at this problem. Section 312 of the bill provides that married individual income taxpayers who file separate returns may exercise the right to change their election and file joint returns at any time within the period of the statute of limitations. This provision is effective with respect to taxable years beginning after December 31, 1950. Section 308 of the bill also provides that individuals who have used the standard deduction when filing their return may substitute itemized deductions at any time within the period of the statute of limitations. Moreover, taxpayers who have itemized their deductions are also to have the option to amend their return within the same period in order to take advantage of the standard deduction. This provision is effective with respect to taxable years beginning after December 31, 1949.

It is anticipated that the revenue loss from these amendments will be negligible.

4. Pensions

Under section 165 of the code, payments made from an employees' retirement fund are taxable to the recipient as received. It has been reported to your committee that life insurance agents have been denied the benefits of this section because of a ruling that they are not technically "employees" for the purposes of the provision. As a result the entire lump-sum value of the pension in excess of any amount contributed to the fund by the employee is taxable as income of the agent in the year he retires when his right to his share of the company's contributions becomes nonforfeitable. Your committee believes this treatment to be inequitable, particularly inasmuch as Congress provided specifically that full-time life insurance agents are

to be employees for social security purposes. Therefore, section 343 of the bill amends section 3797 (a) of the code to extend the benefits of section 165 to life insurance agents who are employees for social security purposes.

This amendment is effective with respect to taxable years beginning after December 31, 1948.

The revenue loss from this amendment will be negligible.

A case has also been brought to the attention of your committee in which an association providing retirement benefits desires to invest a portion of its funds in common stocks, thus providing for a hedge against inflation. A question has arisen as to whether the variable payments which will be made from this fund will qualify for section 165 treatment. It is reported that in the past such treatment has been limited to those retirement plans wherein the annuity contracts provide for the payment of fixed amounts. Your committee understands that treatment as annuities of payments which vary in amount is to be provided administratively under present law, thus permitting the recipients of these annuities to be taxed on the amounts as received instead of being taxed on the lump-sum value of the annuity at the time payments begin. The revenue effect of this provision is negligible.

5. Stock distributions of profit-sharing plans

Section 165 (b) of the code provides for the taxation of distributions to employees from exempt pension and profit-sharing funds. As a rule both the employee and the employer contribute to such funds. The amounts so contributed are then invested, usually in the stock of the employer company. Such amounts may or may not be credited to the accounts of individual employees at the time the purchases of stock are made. At the time that the total distributions payable with respect to any employee are paid to him within one taxable year on account of his separation from service, he is taxable at capital gain rates upon the entire value of the stock which was contributed by his employer. This is likewise true of any uninvested cash contributed to his account by the employer. The value of the withdrawal for tax purposes under present law is the sum of this uninvested cash and the market price of the stock at the time of withdrawal. It is frequently the case that the price the fund paid for the stock was substantially less than the current market price that is used in determining the taxable value of the employee's withdrawal. This results in the employee's being taxed on the amount of company contribution, the fund earnings, and any increase in the value of stock which was purchased for his account. Therefore, where companies select this method of providing for their employees' retirement rather than through the purchase of annuities, this accumulated value of the employer's contribution in the fund is bunched in one taxable year, thus subjecting it to tax in higher surtax brackets.

Your committee believes that the present tax on the stock appreciation in such cases substantially reduces the employees' profit-sharing accumulation and thus his retirement income. This is a discrimination against those employees who select this method of providing for their old age.

Therefore, section 334 of your committee's bill provides that in the case of such distributions consisting of stock in the employer cor-

poration the appreciation in the value of the stock contributed by the employer which has arisen since being deposited in the fund is not to be subject to capital-gain tax until the employee sells the stock, rather than at the time it is distributed to him as under present law. This amendment makes no change in the present tax treatment of that portion of the value of such stock which does not represent appreciation in value.

This amendment applies to distributions made after December 31, 1950.

The revenue loss from this amendment will be negligible.

6. *Death benefits to employees*

Section 22 (b) (1) of the code excludes from gross income amounts received under a life-insurance contract paid by reason of the death of the insured, whether in a single sum or otherwise. However, by its terms, this provision is limited to life-insurance payments, and the exclusion does not extend to death benefits paid by an employer by reason of the death of an employee. In order to correct this hardship, section 302 of your committee's bill excludes from gross income death benefits not in excess of \$5,000 paid by any one employer with respect to any single employee's beneficiary or beneficiaries in accordance with a preexisting contract. The limitation of the exclusion to payments not in excess of \$5,000 will prevent abuses under this new provision.

This provision is effective with respect to taxable years beginning after December 31, 1950.

The revenue loss from this amendment will be negligible.

7. *Termination payments to employees*

Some employment contracts provide for payments to the employee after the employment period, based on a share of future profits or a percentage of future gross receipts. Such payments when received are taxed under present law as ordinary income, inasmuch as they are in the nature of payments of additional compensation. However, if the employee chooses to receive a lump-sum payment in lieu of the contract rights upon termination of his employment, the entire lump sum is included in one year's income. The result may be to place the employee in an unusually high surtax bracket. Your committee believes this present treatment of such lump-sum settlements to be unduly harsh in view of the fact that the employee may not wish to leave his retirement income dependent upon the operation of the business subsequent to the severance of his connection with it.

As a result, section 328 of the bill provides, with certain restrictions, for capital-gain treatment of amounts received by an employee, upon termination of his employment, in exchange for his release of all of his rights to receive a percentage of future profits or receipts. This provision is limited to cases where the taxpayer has been employed for more than 20 years and has held such rights to future profits or receipts for at least 12 years.

This provision is effective with respect to taxable years beginning after December 31, 1950.

The revenue loss from this amendment will be negligible.

8. *Restricted stock options*

The Revenue Act of 1950 added a new section 130A to the code, which provides that the granting to employees of certain types of stock

options will not give rise to taxable income to the recipient. To be excluded under this provision the option must fall within a defined category of "restricted stock options."

Section 130A requires that to qualify as a "restricted stock option" the option price at the time of the granting must be 85 percent or more of the fair market value of the stock. Ordinarily, when an option is used as an incentive device, the option price approximates the fair market value of the stock at the time the option is granted. The 15-percent leeway is allowed because many stocks are not listed on exchanges and therefore, the fair market value is difficult to determine. It has come to the committee's attention that the operation of the 85-percent limitation has resulted in a hardship in one respect. In many cases, the granting of stock options is subject to ratification by the corporation's stockholders. Thus, at the time of the action by a corporation's board of directors the option may be fully qualified as to the 85-percent limitation, but because of the delays typically incident to action by a corporation's shareholders, the fair market price may have so changed by the time of their ratification that the option no longer qualifies under the statute.

In order to correct this harsh operation of the present provision, section 330 of your committee's bill provides that the date of the granting of a restricted stock option which is subject to stockholder ratification shall be determined as if the option had not been subject to such approval.

This amendment will be effective as if it had been enacted as part of the stock option provision of the Revenue Act of 1950.

9. Medical expenses

Section 23 (x) of the code permits the deduction of a taxpayer's medical expenses only to the extent that such expenses exceed 5 percent of the taxpayer's adjusted gross income.

Section 307 of your committee's bill removes this 5-percent limitation for any taxpayer, if either the taxpayer or his spouse is aged 65 or over, but only with respect to the medical expenses of such taxpayer and his spouse. Persons in that age bracket have generally reached a period of lowered earning capacity. These same individuals typically are confronted with increased medical expenses. Disallowance of the deduction of many of these expenses under present law merely serves to accentuate this existing hardship.

This bill does not affect the maximum limitations of present law on the amount of the deduction.

This provision of your committee's bill is effective with respect to taxable years beginning after December 31, 1950.

It is estimated that the provision will involve a loss of revenue of about \$15 million in a full year of operation.

10. Redemption of stock to pay death taxes

The Revenue Act of 1950 amended section 115 (g) of the code to provide that the redemption of stock in a decedent's estate in an amount not in excess of the estate, inheritance and succession taxes (including interest) on the estate is, in certain cases, not to be treated as a taxable dividend. Among other requirements, this provision is limited at present to cases where the value of the stock in the corporation comprises more than 50 percent of the value of the net estate of the decedent.

Your committee believes that the latter limitation imposes a hardship on those estates where the stock in a corporation forms a substantial part of the value of the net estate but falls short of meeting the restrictive 50 percent requirement. Therefore, section 320 of the bill extends the benefits of section 115 (g) to cases where the stock comprises more than 25 percent of the value of the decedent's net estate.

This amendment will be applicable only to amounts distributed on or after the date of enactment of the bill.

The revenue loss resulting from this section will be negligible.

11. Basis of joint and survivor annuities included in the gross estate.

Section 113 (a) (5) of the code provides that property acquired by bequest, devise, or inheritance shall have a basis for determining gain or loss equal to its fair market value at the date of the decedent's death or, if the decedent's executor elects the optional valuation date, at a date 1 year after the decedent's death. However, all property which is included in the decedent's gross estate for estate-tax purposes does not take a new basis upon the decedent's death.

A joint and survivor annuity is includible in the decedent's gross estate but is treated as a gift for basis purposes so that, for purposes of gain, it has the same basis as in the hands of the donor. Section 303 of your committee's bill amends sections 22 (b) (2) and 113 (a) (5) of the code to provide that where a joint and survivor annuity is included in the decedent's gross estate, its basis shall be the value of the property included in the estate.

This amendment is to apply only where the decedent dies after December 31, 1950.

No appreciable loss of revenue is anticipated from the amendment.

12. Abatement of income taxes for certain members of the Armed Forces dying in combat zones or as a result of injuries received in such zones

Individuals dying while in active service during World War II as members of the military or naval forces of the United States or other United Nations were forgiven their income tax with respect to the year of the death and the prior year. They also were relieved of unpaid income taxes at the time of their death.

Section 333 of your committee's bill provides similar treatment for members of the Armed Forces of the United States dying while serving in combat zones or while hospitalized as a result of wounds, disease, or injuries incurred while serving in combat zones.

Your committee's bill provides for the forgiving of income tax in the year of death of such individuals and in prior taxable years ending after the commencement of hostilities in Korea. Also, such individuals are relieved of any income taxes for any year unpaid at the date of their death. The provision is effective with respect to individuals dying after the commencement of hostilities in Korea and prior to January 1, 1954.

13. Individuals earning income abroad

Section 116 (a) of the code exempts from income tax citizens of the United States who are bona fide residents of a foreign country with respect to income earned outside the United States, and disallows deductions chargeable against this income. This provision is intended

both to encourage citizens to go abroad and to place them in an equal position with citizens of other countries going abroad who are not taxed by their own countries.

However, the present law has two defects which section 321 of your committee's bill corrects. First, the exclusion is allowed only with respect to an "entire taxable year" with respect to which the individual is a bona fide resident of the foreign country. Thus, exemption is denied an individual in his first year abroad unless he becomes a bona fide resident of the foreign country as of January 1. Section 321 of your committee's bill corrects this defect of present law by granting the exclusion with respect to "an uninterrupted period which includes an entire taxable year" with respect to which an individual was a bona fide resident of a foreign country.

In addition, the term "bona fide" residence abroad has been construed quite strictly with the result that many persons who have gone abroad to work even for a relatively long period of time have been unable to meet the test of a "bona fide resident" of a foreign country. Sometimes this has occurred because the nature of the individual's work is such as to make it difficult to establish a "residence" in the more widely accepted use of the term. On other occasions it has resulted from the fact that individuals have gone abroad only for a stated period of time. Examples of this are managers, technicians, and skilled workmen who are induced to go abroad for periods of 18 to 36 months to complete specific projects. Your committee believes, in accord with the point 4 program, that it is particularly desirable to encourage men with technical knowledge to go abroad. As a result your committee has added a paragraph to section 116 (a) of the code providing that income earned abroad by a citizen of the United States who is present in a foreign country or countries for 17 out of 18 consecutive months is to be excluded from income, and that deductions chargeable to such income will be disallowed in computing his Federal income tax.

These two changes made by your committee's bill are effective with respect to taxable years beginning after December 31, 1950.

Your committee's bill also amends section 1621 (a) (8) (A) of the code to provide that there is to be no withholding by the United States where it is reasonable to believe that the income is paid to a person who will qualify for the exclusion on the basis of presence in a foreign country for 17 out of 18 consecutive months. In addition, it provides that there is to be no withholding of income taxes for the United States upon an amount earned for services performed in foreign country if withholding on that amount is required for a foreign country. These changes in your committee's bill are effective as of January 1, 1952, with respect to wages paid on or after that date.

The revenue effect of these provisions is negligible.

14. War losses

Section 127 of the code, in general, authorizes a war loss deduction for property in enemy hands when the United States entered World War II in 1941, for property which later came under enemy control and for property destroyed or seized in the course of military or naval operations. This deduction is limited to the taxpayer's depreciated cost or other basis of the property. Section 127 also provides that if any of the property was recovered, the fair market value of the

recovered property, not the amount deducted, is to be taxed as ordinary income to the extent that the deduction resulted in a reduction of tax.

Where only one property was involved, there has been no difficulty with this rule, since in those cases where the fair market value of the recovered property exceeded the amount of the deduction, the value of the recovered property was includible in income only to the extent that the deduction resulted in a reduction in tax. The full fair market value was not included in income in such cases because it was believed appropriate to treat the taxpayer as nearly as possible as if he had held the property throughout the entire period and received no deduction for the temporary loss. In such a case appreciation in the value of the property would not, of course, be subject to tax. However, where the war loss embraces more than one property, the present rule does not always achieve this result. For example, where war loss deductions have been taken for two or more properties, and only one of these properties is recovered, if the recovered property has appreciated in value, the deduction previously taken not only with respect to this property but also with respect to the property not recovered is taken into consideration in determining how much of the fair market value of the property recovered represents a previous reduction in tax. In such a case the effect of the present provision is not to treat the property as if it has been held for the entire period since part or all of the appreciation in value of the property is subject to tax in the year of recovery merely because a deduction had also been taken for another property which has not been recovered.

To correct this situation section 340 of your committee's bill amends section 127 of the code to provide that, at the election of the taxpayer, in the case of war loss recoveries the tax for the year in which the deduction was taken is to be recomputed by reducing the deduction by the amount of the recovered property, taken at its depreciated cost on the date of the loss or its fair market value on the date of the recovery, whichever is lower, and by adding the increase, if any, in the tax so resulting to the tax for the year of the recovery.

The attention of your committee has also been brought to cases where war losses have been realized but no deduction was claimed. In such cases, if other war losses were deducted with a tax benefit, section 127 of the code operates to require the fair market value of the property on the date of the recovery to be included in income in the year of the recovery to the extent not in excess of the beneficial deductions for other war losses. Under section 340 of your committee's bill there would be no tax in the year of the recovery with respect to property for which no deduction was claimed in the year of the loss.

No interest is to be paid or assessed on refunds or deficiencies arising from this provision.

These amendments will have no permanent revenue effect.

15. Foreign tax credit for taxes paid by a foreign subsidiary

Existing law permits a domestic corporation, owning the majority of the voting stock of a foreign corporation, to claim a foreign tax credit for income taxes paid by the foreign corporation to a foreign government with respect to the profits of the foreign corporation which are paid as dividends to the domestic corporation. Your com-

mittee believes that the principle established by present law is correct but does not believe that the allowance of the foreign tax credit should be limited to those cases where the domestic corporation owns a majority of the voting stock of the foreign corporation. Irrespective of the proportion of the foreign corporation owned by the domestic corporation, the dividends received by the domestic corporation are equally likely to be affected by the taxes paid to a foreign government. Moreover, several foreign countries prohibit the ownership of as much as 50 percent of one of their domestic corporations by a foreign corporation. Thus, it is impossible for American corporations to operate a foreign subsidiary in these countries and receive the foreign tax credit with respect to dividends paid to them by the foreign corporation which they partially own. Also, in some cases a foreign corporation is owned jointly by two or more domestic corporations, and in such cases either none receive the foreign tax credit or one receives it while the others do not. For these reasons section 331 of your committee's bill amends section 131 (f) (1) of the code to provide that the foreign tax credit is to be allowed if the American corporation owns 10 percent or more of the voting stock of the foreign corporation. The 10 percent limitation is imposed for administrative reasons.

This provision is effective with respect to dividends received during taxable years beginning after December 31, 1950.

Under present law if a foreign subsidiary of an American corporation owns all of the voting stock of another foreign corporation, the dividends received by the American parent with respect to the earnings of the second subsidiary are eligible for a foreign tax credit. However, your committee sees no reason why it is necessary for the first foreign subsidiary of the American corporation to own all of the voting stock of the second foreign subsidiary in order for the American parent corporation to receive the foreign tax credit with respect to dividends paid from the profits of the second foreign subsidiary. On administrative grounds there is a basis for requiring majority ownership, but not complete ownership, of the second foreign subsidiary by the first foreign subsidiary. Therefore, section 331 of your committee's bill extends the foreign tax credit to apply in the case of dividends received by American corporations in such cases of majority ownership.

These amendments are expected to result in a revenue loss of \$30 million in a full year's operation.

This provision is effective with respect to dividends received by a foreign corporation during taxable years beginning after December 31, 1950.

16. Postponement of due date for returns of China Trade Act Corporations

Under present law China Trade Act Corporations are allowed a credit against their income for the net income derived from sources within China with respect to the portion of the stock of the corporation held by Chinese or American shareholders. Also, the corporation must distribute an amount at least equal to the amount of the income tax which ordinarily would be imposed in such cases in order to receive the full credit. As a result of hostilities and unsettled conditions generally in the Far East, it is impossible in many cases for corporations doing business in China to make a distribution of any earnings derived from China or even to know the size of such earnings. For that reason section 613 of your committee's bill amends present law to

provide that the Secretary of the Treasury may postpone the due date up to the end of 1953 for the paying of any income tax and the filing of the return with respect to years beginning and ending in the period January 1, 1949, to September 30, 1953, if he deems such deferment reasonable under the circumstances. Since the requirement, that in order to receive the full credit the distribution of earnings derived from China must at least equal the income tax which otherwise would have been paid, need not be met prior to the time the taxes are due and payable, the postponement of the due date also has the effect of permitting the taxpayer to postpone the distribution of earnings.

This provision will have no permanent effect on the revenue.

17. Application of the intercorporate dividends-received credit in the case of resident foreign corporations

Under present law foreign corporations engaged in trade or business within the United States are subject to the regular corporate income taxes with respect to that portion of their income which is derived from sources within the United States. However, where such corporations pay dividends to a United States domestic corporation, no dividends-received credit is allowed the latter, although such credit would be allowed if the domestic corporation were receiving dividends from another domestic corporation. Thus, two full corporate taxes are paid with respect to dividend income received from foreign corporations engaged in trade or business within the United States (to the extent that the dividends are paid out of income derived from sources within the United States), while as a result of the intercorporate dividends-received credit, dividends paid by one domestic corporation to another are subject only to a little more than one full corporate income tax.

To remove this discrimination, section 311 of your committee's bill amends section 26 (b) of the code, relating to the dividends-received credit, to provide that under certain conditions dividends received from foreign corporations engaged in trade or business within the United States are to be eligible for the 85-percent intercorporate dividends-received credit. However, the credit is to be extended only with respect to so much of the income as was earned in the United States. Moreover, the credit is to be made available only with respect to income earned in the United States during an uninterrupted period in which the corporation was engaged in a trade or business within the United States. Also, for administrative reasons the credit is to be made available only where 50 percent or more of the gross income of the foreign corporation was derived from sources within the United States.

This provision of your committee's bill is effective with respect to taxable years beginning after December 31, 1950.

It is estimated that this provision will result in an annual loss of revenue of \$1 million.

18. Net operating loss deductions

Section 329 of the bill permits net operating losses of 1948 and 1949 to be carried forward 4 years instead of 2. This provision is necessary in order to reduce the existing disparities in the treatment of different tax years.

The Revenue Act of 1950 provided that the net operating loss for a year may be carried back to offset income of the preceding year and

may be carried forward to offset income of the 5 succeeding years. This provision was made effective for losses in 1950 and later years. Losses in years prior to 1950 may be carried back 2 years and carried forward 2 years. The effect of the change in the 1950 act was to permit losses in 1950 and subsequent years to be applied to offset possible income in six other years, whereas losses in 1949 and earlier years could be applied to offset possible income in only four other years.

So far as a taxpayer with income in 1950, 1951, or 1952 is concerned, the 1950 act had the effect of reducing the number of possible loss years whose net operating losses could be applied to offset the 1950, 1951, or 1952 income. This is because a loss in a year subsequent to 1949 may be carried back only 1 year instead of 2 years. For example, a taxpayer with income in 1947 had four potential loss years which might be applied against the 1947 income—1945, 1946, 1948, and 1949—whereas a taxpayer with income in 1950 has only three potential loss years which might be applied against the 1950 income—1948, 1949, and 1951. Also, a taxpayer with income in 1953 or 1954 would not have as many potential loss years which might be applied against his income in those years as a taxpayer with income in 1955 (when the provision in the 1950 act becomes fully effective), since 1953 income may be offset only by 1950, 1951, 1952, and 1954 losses (4 years) and 1954 income may be offset only by 1950, 1951, 1952, 1953, and 1955 losses (5 years), compared with an offset against six potential loss years in the case of income in 1955 and subsequent years.

By permitting 1948 and 1949 losses to be carried forward 4 years, the bill increases to four the number of loss years which may be applied to 1951 income and increases to five the number of loss years which may be applied to the income of 1952 and 1953. No comparable provision appears in the House bill.

Under present law, new corporations formed during the period 1946 to 1949 are at a competitive disadvantage as a result of the existing net operating loss provisions. For example, a corporation formed in 1947 with losses in that year obviously is unable to carry back its losses and can only carry them forward 2 years. A competitor, formed in 1950, can carry forward its losses 5 years to 1955. In order to correct this inequity, the bill provides that new corporations formed in a taxable year beginning after December 31, 1945, which sustain a net operating loss for any taxable year beginning after that date and before January 1, 1950, may carry forward such loss (to the extent not absorbed by a carry-back) for four taxable years, instead of two taxable years as under present law.

These provisions are applicable in computing the net operating loss deduction in taxable years beginning after December 31, 1948.

There will be no permanent revenue loss from these provisions.

19. Corporate reorganizations (spin-offs)

Section 317 of your committee's bill adds a new section 112 (b) (11) of the code to provide for the nonrecognition of gain from the receipt of stock in corporate exchanges carrying out transactions known as spin-offs. A spin-off occurs when a part of the assets of a corporation is transferred to a new corporation and the stock in the latter is distributed to the shareholders of the original corporation without a surrender by the shareholders of stock in the distributing corporations. It is intended that section 317 shall be applicable even

though the portion of the business which is spun off is already organized as a separate corporation, with the result that it is the stock of that corporation, rather than the underlying assets, which is transferred to the new corporation whose stock is distributed. For example, if among the assets of corporation A is the stock of a subsidiary corporation B, whether or not wholly or even majority owned, and business reasons exist, unrelated to any desire to make a distribution of earnings and profits to its shareholders, for the separation of the assets consisting of such stock, such separation may be effected without recognition of gain to corporation A or its stockholders by transferring the stock of B to a newly organized corporation C in exchange for its stock, followed by the distribution of C's stock to the stockholders of A without the surrender of their stock.

This section has been included in the bill because your committee believes that it is economically unsound to impede spin-offs which break-up businesses into a greater number of enterprises, when undertaken for legitimate business purposes. A similar provision was contained in the revenue revision bill of 1948 which passed the House but was not acted upon by the Senate, and a similar provision was included in the Senate version of the bill which became the Revenue Act of 1950.

Section 317 has been drafted so as to limit its benefits to reorganizations in which all of the new corporations as well as the parent are intended to carry on a business after the reorganization and where only stock (other than preferred) is distributed by the corporation or corporations. Nonrecognition of gain has been denied also in cases where the reorganization was principally a device for the distribution of the earnings and profits of the corporations which are parties to the reorganization.

Section 317 of the bill also adds a new section 113 (a) (23) to the code providing that, in the case of stock distributed in a spin-off, the basis of the new stock, and the old stock, respectively, in the shareholder's hands, is to be determined by allocating between the old stock and the new stock the adjusted basis of the old stock.

These provisions of your committee's bill are to be effective with respect to taxable years ending after the date of the enactment of this bill, but are to apply only to distributions of stock made after that date.

The revenue loss resulting from this provision is expected to be small.

20. Back mail pay of railroads

After an application for increased mail pay made by the railroads in February 1947, the Interstate Commerce Commission in December 1947, ordered an interim increase of 25 percent in mail-pay rates effective after February 19, 1947, pending further investigation. Amounts represented by this increase were reported for tax purposes by the railroads in the years in which the services were rendered. On December 4, 1950, the ICC awarded the railroads \$312 million in back mail pay for the period from February 19, 1947, through December 31, 1950. Of this amount, about \$160 represented the 25-percent increase previously granted on a temporary basis with respect to the services rendered in the period 1947-50, and about \$158 million represented an additional increase with respect to those same services.

Your committee believes that this latter amount should receive the same tax treatment as the amount previously granted, inasmuch as both represent compensation for the same services. Therefore, in order to avoid any uncertainty, section 610 of your committee's bill provides that the additional payments authorized by the December 4, 1950, order shall be included in income for the years in which the railroads rendered the services for which the additional payments were made. It is specifically provided that no interest shall be due with respect to any period prior to July 1, 1951, for deficiencies resulting from the inclusion of the additional payments in the back years.

It is estimated that inclusion of these payments in the back years will result in about \$10 million less revenue than if they were taxed in the year in which received.

21. Income from discharge of indebtedness

Section 22 (b) (9) of the code excludes from gross income, in the case of a corporation, the amount of income attributable to the discharge of indebtedness evidenced by a bond, debenture, note, certificate, or other evidence of indebtedness. The provisions of this section are temporary under existing law and expire automatically on December 31, 1951. Section 304 of your committee's bill provides for the permanent enactment of the section.

The exclusion provided by section 22 (b) (9) is to be applicable only if the corporation consents to a reduction in the basis of its properties under section 113 (b) (3) in accordance with the regulations then in effect. The reduction of basis under section 113 (b) (3) is in an amount equal to the income excluded under section 22 (b) (9). In the event an amount is excluded from gross income under these provisions, an adjustment is made for unamortized premium or unamortized discount on the discharged obligation.

The Secretary of the Treasury has authority under section 113 (b) (3) to prescribe regulations which will set forth rules under which the adjustment to basis shall be made. Existing regulations (sec. 29.113 (b) (3)-1 of Regulations 111) provide that an amount equal to the excluded income is first to be applied in reduction of the basis of the specific property (other than inventory, notes, or accounts receivable) in the acquisition of which the indebtedness was incurred. The reduction of basis in such case merely reflects an adjustment in the purchase price of the property. The reduction of basis under the regulations is then successively applied to the following classes of property: (1) Property securing the indebtedness, (2) other property of the taxpayer, and finally (3) inventory and accounts and notes receivable. Within these classes, the reduction in basis is applied proportionately to the property included in the class without regard to whether the property is depreciable or nondepreciable. In order to assure that the exclusion of income by operation of section 22 (b) (9) may result only in a temporary postponement of the tax liability, your committee understands that the Secretary of the Treasury will require by regulations that, after adjustment of the basis of certain property acquired with the purchase money indebtedness, whatever reduction in basis of property remains to be taken under section 113 (b) (3) will be taken, in general, against depreciable property or property subject to cost depletion and only as a last resort against nondepreciable property. Thus, in general, it is intended that a reduction in the

basis of nondepreciable property will be made only after the exhaustion of depreciable property or property subject to cost depletion. This provision will assure the collection within a reasonable time of the taxes postponed and will, therefore, have no appreciable, long-run effect on the revenue.

Section 304 of your committee's bill makes a technical amendment to section 22 (b) (9) to allow for greater flexibility as to the time for filing the required consent to a reduction of basis. Under the present law, the taxpayer must file its consent with its return for the taxable year. The bill amends the section to provide that the consent shall be filed at such time as the Secretary of the Treasury may prescribe. Under this amendment, the Department could continue to require that the consent be filed with the return in the ordinary case, but might make provision for filing of the consent at a later date in appropriate hardship cases.

Your committee has provided that this amendment shall be effective with respect to taxable years ending after December 31, 1950.

Section 304 of your committee's bill extends for an additional 3-year period the exclusion provided for railroad corporations under section 22 (b) (10) of the code. Section 22 (b) (10) provides that the amount of income attributable to the discharge of any indebtedness of a railroad corporation, as defined in section 77 (m) of the National Bankruptcy Act, shall be excluded to the extent that such income is deemed to have been realized by a modification or cancellation of indebtedness pursuant to an order of the court in a receivership proceeding or a proceeding under section 77 of the National Bankruptcy Act. This section also expires automatically on December 31, 1951. Unlike section 22 (b) (9), section 22 (b) (10) does not require a reduction in the basis of the taxpayer's properties as a condition to the exclusion of the income. The extension of the expiration date of section 22 (b) (10) made by this section of your committee's bill is to December 31, 1954.

The revenue loss from these amendments is expected to be negligible.

22. Liquidation of corporations

Under the Revenue Act of 1950, domestic corporations, including personal holding companies, may be liquidated under section 112 (b) (7) of the code for a limited period without payment of capital gain tax by the stockholders on the appreciation in value of assets held by the companies. In general, in the case of gain on stock held by individuals only that portion of the distribution to the shareholders which represents accumulated earnings is to be taxed, to the extent of the gain, as ordinary income. So much of the remainder, to the extent of the balance of the gain as consists of money, or of stock or of securities acquired by the corporation after a basic date (August 15, 1950) is to be treated as a capital gain.

Under section 112 (b) (7) in its pre-1950 form, a similar election was available when the plan of liquidation was adopted after the date of enactment of the Revenue Act of 1943 and put into effect during the calendar year 1944. Under the amendment made by the Revenue Act of 1950, this election was restored for plans of liquidation adopted after December 31, 1950, and effected during any one calendar month in 1951.

Section 316 of your committee's bill extends the application of section 112 (b) (7) so that taxpayers may exercise a similar election to

cover liquidations of corporations during 1952. This 1-year extension of the election will facilitate the liquidation of domestic personal holding companies. The committee believes it desirable to expedite the liquidation of such companies.

This provision of your committee's bill is effective with respect to taxable years ending after December 31, 1951.

It is anticipated that the revenue loss resulting from this amendment will be negligible.

23. Capital gains of corporations improperly accumulating surplus (sec. 102)

Section 102 of the code imposes an additional tax on corporations improperly accumulating surplus to avoid payment of surtax by stockholders. This additional tax is imposed on the undistributed "section 102 net income", which is, in general, net income minus the normal tax, surtax, and excess profits tax of the corporation. Under present law, the section 102 tax applies to the long-term capital gains of the corporation as well as to its ordinary income. Your committee is of the opinion, however, that the problem of avoidance of surtax by stockholders does not arise in the case of net long-term capital gains, since these gains would have been taxed at a maximum rate of 25 percent if they had been realized by the stockholder directly. Furthermore, with present high replacement costs, corporate capital gains must be reinvested in order to keep the corporation's business activities at their current level. Therefore, section 315 of your committee's bill amends section 102 in order to exclude net long term capital gains from the undistributed income subject to the section 102 tax. However, this amendment further provides that the capital gain tax is not to be allowed as a deduction in computing income subject to the section 102 tax.

This provision is effective with respect to taxable years beginning after December 31, 1950.

The revenue loss from this amendment is expected to be negligible.

24. LIFO method of accounting

Under the present law taxpayers using the LIFO inventory method have until the end of 1952 in which to make replacements of inventories involuntarily depleted during World War II. They have until the end of 1955 to make replacements of inventories involuntarily depleted during the present emergency. However, inventory replacements are required to be attributed to the most recent liquidations not already replaced, so that a replacement before the end of 1952 must be treated as a replacement of inventory liquidated during the present emergency before any inventory increases can be treated as replacements of inventory liquidated during World War II. This makes it difficult for taxpayers now suffering liquidations to replace World War II inventory liquidations before the end of 1952.

Section 306 of your committee's bill corrects this situation by providing, in effect, that replacements made prior to 1953 are first to be deemed to be replacements of liquidations during the World War II period rather than first being deemed to be replacements of liquidations during the present emergency.

This provision of your committee's bill is effective with respect to taxable years ending after June 30, 1950.

The revenue loss from this amendment is expected to be small.

25. Exchanges and distributions under SEC orders

Supplement R of chapter 1 of the Code provides, in general, that gain shall not be recognized to a corporation transferring property to another corporation which is a member of the same system group if the transfer is under order of the Securities and Exchange Commission. A "system group" is there defined as a chain of corporations connected with a common parent through 90-percent ownership of each class of stock other than stock preferred both as to dividends and assets.

A case has been brought to the attention of your committee in which a parent corporation owned over 96 percent of a \$46 million stock issue but owned slightly less than 90 percent of a \$15,000 stock issue which was preferred as to dividends but not as to assets. Thus, under the present provisions of Supplement R this corporation's failure to own 90 percent of the \$15,000 issue results in the non-recognition-of-gain provision being inapplicable in this case. Your committee believes this application of the rule to be unduly harsh in its results.

Therefore, section 337 of your committee's bill amends Supplement R to provide that, in addition to the present definition of a system group, corporations be permitted to qualify as a system group if the parent owns 90 percent of each class of stock other than preferred stock and other than stock which is preferred as to dividends but not as to assets if the value of such stock is less than 1 percent of the aggregate value of all classes of nonpreferred stock.

This amendment is effective with respect to taxable years affected by an exchange or distribution made after December 31, 1947.

The revenue loss under this amendment will be negligible.

26. Preferred stock of public utilities

Section 611 of your committee's bill is intended to correct section 15 (a) of the code which permits public utilities furnishing telephone service, electrical energy, gas, or water to take a partial credit against net income for dividends paid on preferred stock originally issued before October 1, 1942. The existing credit is designed to give these public utilities a tax saving equal to 14 percent of the amount of the preferred stock dividends. The provision of your committee's bill amends section 15 (a) with respect to taxable years beginning before April 1, 1951, to make the intercorporate dividends-received credit available in the case of dividends on preferred stock of public utilities if the special dividends paid credit for public utilities provided by section 26 (b) has not been received by the utility.

The revenue loss resulting from this amendment will be negligible.

27. Earnings of dependents

Section 25 (b) (1) (D) of the code allows a taxpayer, as a credit against net income, an exemption of \$600 for each dependent whose gross income in the year is less than \$500. Prior to the Revenue Act of 1948, the exemption for dependents amounted to \$500. Thus, before the amendment made by that act, the amount of the exemption conformed with the amount of earnings which a dependent was allowed before the taxpayer was denied an exemption on his account. However, in increasing the exemption to \$600, the 1948 act failed to make an equivalent increase in the amount of the dependent's allowable earnings.

Your committee believes that these provisions of present law should be brought into conformity. Not only is the present treatment inconsistent, but it leads inevitably to confusion on the part of taxpayers.

For this reason, section 310 of your committee's bill amends section 25 (b) (1) (D) in order to permit the exemption for dependents whose earnings are less than \$600.

This amendment applies to taxable years beginning after December 31, 1950.

The revenue loss from this provision is expected to be small.

28. Mine exploration expenditures

It is generally recognized that the presently available mineral resources of this country are in many respects deficient in view of the ever-increasing demands of our economy, especially in an emergency period such as the present. Not only is this true with many common metals such as copper, zinc, and lead, but it is even more true with respect to many rare metals and nonmetallic minerals. Intensified and expanded efforts to find new deposits of ores and other minerals are highly desirable.

Under present law, expenditures for ascertaining the location, extent, and quality of mineral deposits cannot be deducted (unless such expenditures produce no useful results, in which case they can be deducted as with any other loss), but must be capitalized. Amounts so capitalized can be recovered for tax purposes only through depletion allowances. Moreover, if the depletion allowance is based upon a percentage of gross income from the property, this deduction is the same whether a large or a small sum was spent for exploration, so that there is no special tax incentive for increased exploration expenditures.

Your committee believes that a special incentive for increased exploration for mineral deposits is desirable, especially in the case of taxpayers with limited financial resources. Therefore, section 341 of your committee's bill provides that with respect to expenditures made to ascertain the existence, location, extent, or quality of any deposit of ore or other mineral (other than oil and gas), prior to the development stage of a mine, the taxpayer may elect to deduct in any taxable year any amount up to \$75,000 paid or incurred in that year; or he may defer any amount up to \$75,000 not deducted in the current year, and deduct that amount ratably as the minerals discovered or explored as the result of the expenditure are sold. Any taxpayer may treat such expenditures made in any 4 years, up to \$75,000 per year, as deductible in either of these ways; after he has done this for 4 years, additional expenditures for exploration must be capitalized as under present law. Amounts so deducted will be a substitute for cost depletion based on such expenditures, but the allowances for depletion based upon a percentage of gross profit will not be affected.

The reduction in revenue resulting from this provision is expected to be _____ in a full year's operation.

The amendments made by this section of your committee's bill will apply to taxable years ending after December 30, 1950.

29. Corporate liquidations accompanied by reorganizations

Section 112 (c) (2) of the code provides, in effect, that if a distribution of cash or other property together with stock or securities is

“made in pursuance of a plan of reorganization,” but “has the effect of the distribution of a taxable dividend,” then the excess of the value of the cash or other property and stock or securities received by the stockholder over the cost or other basis of his stock, which would otherwise be taxable as a capital gain to the extent of the cash or other property received, shall, to the same extent and to the extent of the earnings and profits so distributed, be taxed at ordinary rates as if the cash or other property had been received as a dividend.

This provision was intended to apply to a situation where a corporation with accumulated earnings and profits in the form of cash or the equivalent transferred its operating assets to a newly formed corporation in exchange for its stock and then distributed the cash and the stock of the new corporation to its stockholders. In such cases the corporation can continue its industrial or commercial operations under the new corporation’s charter exactly as it would have done had there been no reorganization but merely the distribution of a cash dividend to its shareholders. In such cases the underlying realities and not the outward forms of the transaction should determine the tax consequences.

However, there are situations which involve a reorganization which is only incidental to the actual discontinuance and liquidation of a business, and where the reorganization is expedient to carry out certain necessary transactions. Such a case was brought to the attention of your committee. In that case a corporation which had been engaged in certain industrial operations for many years terminated those operations, sold its remaining industrial plant and equipment, collected its accounts receivable, and prepared to completely liquidate. However, among its assets, in addition to a substantial amount of cash obtained from the disposal of its operating assets, were several tracts of unimproved land. It was not desirable to sell the land, since valuable leases could be executed with respect to much of it. Neither was it expedient to distribute the land to a number of stockholders, living in different parts of the country, since joint execution of leases, collection of rents, etc. would be impracticable. So the land was transferred to a newly organized corporation for its stock and that stock, together with the proceeds of the sale of the operating assets, was distributed to the stockholders in complete liquidation and the old corporation was dissolved.

It appears that in such cases we have, not a continuation of an existing business with a mere change in corporate identity to afford an excuse for a distribution of earnings and profits in the guise of a liquidation, but a bona fide liquidation resulting from the termination of business operations, and the formation of a new corporation incidental thereto motivated by sound business reasons. Nevertheless, it seems probable that the Treasury Department will hold that in such taxes a taxable dividend was distributed, in view of the language of a decision of the Supreme Court (*Estate of Bedford*, 325 U. S. 283), which appears to indicate that any distribution of cash or the equivalent, where the corporation has undistributed earnings and profits, in connection with a reorganization, is a distribution of a taxable dividend.

To avoid hardships which might result from unduly rigid interpretations of section 112 (c) (2) of the code, your committee provides, in section 342 of the bill, that where a corporation, as part of a plan

of liquidation, exchanges unimproved real estate which is only part of its assets for stock of a new corporation and thereafter distributes such stock and its remaining assets in liquidation, the gains to the shareholders resulting from such distribution shall be treated as capital gains and not as taxable dividends. This treatment is provided only if there was a "sound business reason" for the formation of the new corporation, if the corporation "was organized and is operated for the sole purpose of holding title to such real estate and collecting income from the leasing or sale thereof and if the business of the old corporation is discontinued." The provision is made applicable to taxable years beginning after December 31, 1947.

It is expected that the reduction in revenue resulting from this provision will be small.

C. PROVISIONS OF THE HOUSE BILL NOT ACCEPTED BY YOUR COMMITTEE

1. Withholding on dividends, interest, and royalties

Part I of title II of the House bill provides for withholding at the rate of 20 percent in the case of dividends, certain interest (principally corporate bond interest), and royalties. Under existing law recipients of such incomes are required to report the total amount received as income on their annual income-tax returns. Withholding is required of the payor only in the case of nonresident aliens.

The stated purpose of the House bill is to improve compliance on the part of taxpayers with respect to these types of investment income. Various estimates have been made to the effect that for calendar year 1951 underreporting in this area may reach as much as \$3 billion.

While your committee recognizes that there may well be substantial underreporting of such income, largely through carelessness on the part of taxpayers, it does not believe that sufficient investigation of the problem has been made to justify such a drastic solution as the House bill proposes. Your committee believes that the withholding provisions of the House bill would work a great hardship upon many taxpayers and impose expensive administrative burdens upon the withholding agents.

The most obvious inequity which would result from adoption of the House provisions would, of course, be that withholding would be applied to many taxpayers who in fact have no income-tax liability. This hardship would be particularly severe, for example, with respect to an elderly retired individual living on a small investment income. As a result of withholding at the source, such a person's income would be reduced by 20 percent at the time he receives it. The taxpayer would be out-of-pocket this amount until such time as he could file a claim for refund and his claim could be acted upon. No system has yet been devised which, in your committee's opinion, would provide refunds speedily enough to mitigate this hardship. Your committee also fears that many taxpayers, especially those in the lower income brackets, would, either through misunderstanding or carelessness, fail to apply for the refunds due them, thus, being deprived permanently of a portion of their income.

This type of inequity can also be acute in the case of tax-exempt organizations which depend for their support largely upon investment

income. While the House bill attempts to reduce this difficulty by permitting such organizations to take the refunds due them as a credit against any withholding tax liability with respect to their employees, your committee believes this to be only a limited solution, especially with respect to such organizations with small payrolls.

It has been argued that withholding on dividends, interest, and royalties will remove an existing discrimination against wage earners whose earnings are generally withheld upon today. However, it should be pointed out that under the House bill the proposed 20 percent withholding rate would be applied to the enumerated types of dividends, interest, and royalty payments without allowance for any personal exemptions. This is not true with respect to wage withholding. Thus the hardship imposed upon recipients of investment income, especially those with large family responsibilities, would be greater than any now imposed upon wage earners.

In addition to the hardships described above with respect to the individuals to be withheld upon under the House bill, your committee foresees the imposition of greatly increased administrative burdens upon the withholding agents if the plan were adopted. Although the proposal contains no provision which would require payor corporations to notify their stockholders of amounts withheld from dividends, it is obvious that good stockholder relations will in practice require that this be done in many cases. It is likewise probable that the burden will frequently fall upon the withholding agent to explain to the income recipient why his payments have suddenly been reduced. These consequences, in addition to the statutory requirements of withholding in the case of each of many recipients and transmittal of these amounts to the Government, will clearly impose considerable expense upon withholding agents.

It has been noted that the House provision would also require withholding with respect to royalty payments. Your committee has not been shown any need for withholding in this area. Royalty payments are much more apt to represent large amounts than is true in the case of dividends and interest and are more apt to be received at regular intervals over a long period of time. For these reasons such payments are more likely to be included in the payee's income. Your committee believes it unlikely that there is any substantial underreporting in this area. It should be pointed out that royalty payments with respect to minerals are frequently subject to depletion and various expense deductions. The House bill makes no allowance for such deductions.

While the House bill requires withholding only on limited types of interest, principally interest on corporate bonds, your committee believes there are still many unresolved problems with respect to the interest upon which withholding has been proposed. This is true, for example, with respect to the treatment of transfers of certain types of coupon bonds.

Examination of income tax returns through a "sampling" technique is reported to indicate substantial underreporting of various forms of investment income. However, no effort has been made to determine the extent to which dividends, interest, and royalties are paid to persons who file no tax returns. Thus, no accurate information has been developed which would indicate either (1) the proportion of individuals not now required to file returns who receive income from dividends,

interest, and royalties and would, therefore, be required to file for refunds if withholding were imposed, or (2) the number of individuals who receive dividends, interest, and royalties who do not file returns but who should do so. Information of this type is essential to any appraisal of the need and the desirability for legislation in this area. It is hoped that the Bureau of Internal Revenue will make every attempt to secure this information.

In view of the serious objections to the withholding plan of the House bill described above and the lack of essential information just referred to, your committee has not included the withholding provisions in its bill.

It has been estimated that the withholding provisions of the House bill would increase the revenues by \$323 million annually.

The House bill requires the furnishing of information at the source as to all payments of interest subject to withholding of \$300 or over and requires similar information as to all other interest payments of over \$100. Below those amounts information could be required at the discretion of the Secretary of the Treasury. Under present law, interest payments of \$600 or more are required to be reported. Section 332 of your committee's bill amends this provision to give the Secretary discretionary authority to require information returns as to interest payments of any amount. Moreover, the provisions of present law which authorize that payments of dividends in any amount be reported at the discretion of the Secretary are retained. Your committee believes that these informational requirements, in addition to the widespread publicity which has been given recently to the problem of under-reporting of these types of investment income, should substantially improve taxpayer compliance in this entire area.

2. Surtax exemptions and minimum excess profits tax credits of related corporations

Under existing law the \$25,000 corporate surtax exemption and the \$25,000 minimum credit under the excess profits tax are available to each member of a group or chain of related corporations. It has been claimed that this treatment confers an unwarranted tax advantage on businesses carried out by means of a series of corporations, rather than a single corporation, and sets up an incentive for the artificial splitting-up of corporations. It is argued that this effect of the existing law is difficult to reconcile with the fact that the surtax exemption and the minimum credit were intended to confer tax advantages on small business. In an attempt to correct this situation, section 123 of the House bill would reduce to one the number of surtax exemptions which may be claimed by a group of "related" corporations and would limit the minimum excess profits tax credit to a single credit of \$25,000 for the entire group.

Under the House bill the \$25,000 surtax exemption and the \$25,000 minimum excess profits credit would be divided equally among the related corporations unless they elect another method of apportionment. Such an election would be made by filing with the Secretary of the Treasury a consent indicating the portion of the \$25,000 which would be taken by each of the related corporations as its surtax exemption for the taxable year. This election would permit the related corporations to absorb the full surtax exemption and the full minimum

excess profits credit so long as the group has a combined surtax net income of \$25,000.

A "related" group of corporations is defined in the House bill so as to include one or more chains of corporations connected through ownership with a common parent corporation when at least 95 percent of the voting power of all classes of stock of each of the corporations (except the common parent corporation) is owned directly by one or more of the other corporations, and the common parent owns directly stock possessing at least 95 percent of the voting power of all classes of stock of at least one of the other corporations, excluding, in computing such voting power, stock held by such other corporations. A "related" group would also exist if at least 95 percent of the voting power of all classes of stock of each of two or more corporations were owned, directly or indirectly, by or for one individual, or if at least 95 percent were owned, directly or indirectly, by or for not more than five individuals each of whom owns substantially the same proportion of the voting power in each of the corporations.

In determining the extent of an individual's holdings of the stock of a corporation for this purpose under the House bill, he would be deemed to own stock held directly or indirectly by or for his spouse, and also that portion of the stock owned by a corporation, partnership, estate, or trust in which he holds an interest, which reflects the extent of his interest in such corporation, partnership, estate, or trust. If he and his spouse own directly or indirectly more than 50 percent of the voting power of a corporation he would be considered to own also the stock in that corporation held directly or indirectly by his ancestors and lineal descendants.

Your committee realizes that there may be some opportunities for tax avoidance under present law through the use of multiple corporations, although it should be pointed out that sections 45 and 129 of the code now afford the Government protection in cases where the principal purpose of the formation of multiple corporations can be shown to be the avoidance of taxes. However, the House bill is so broad in its attack on this problem that, if enacted, it could result in substantial injury to many businesses whose present corporate organization has not been motivated by tax avoidance.

Many businesses were organized in the form of multiple corporations long before the present surtax exemption and minimum excess profits tax credit were introduced. A business may be required to incorporate separately in each State in which it carries on its activities. Furthermore, State laws sometimes prohibit the chartering of a corporation for more than one business purpose. A related corporation frequently will be formed for the purpose of limiting liability with respect to the development of a new and risky enterprise. All of these are traditional and legitimate purposes for the creation of new and separate corporations, yet the House bill would strike at these bona fide corporate entities in the same manner as it would treat cases of true tax avoidance.

Corporations defined as "related" under the House bill may, in fact, be carrying on entirely unrelated types of business with few or no transactions between the members of the related groups. In such cases, failure to extend the full surtax exemption and the full excess profits tax credit to each corporation could affect seriously its com-

petitive position with respect to other corporations of similar size carrying on the same type of business.

The provisions of the House bill would apply to corporations without regard to when they were formed. This would work a particular hardship on those related corporations which were organized in the past for legitimate business reasons. It should be noted that the denial of the full surtax exemption and the full minimum excess profits tax credit can result in a very substantial increase in tax liabilities, especially in the case of small corporations. On the other hand, to limit a provision such as that of the House bill to corporations created in the future would give rise to numerous competitive discriminations between new and old corporations.

For these reasons, your committee has eliminated entirely this provision of the House bill. Any future study undertaken to develop methods of limiting avoidance in this area should emphasize the importance of correcting the true cases of avoidance without working a hardship on legitimate business organizations.

It was estimated that the House provision would have increased the revenues by about \$54 million annually.

3. Sale of property to controlled corporations

Section 310 of the House bill is intended to forestall a reported practice of selling depreciable assets to a corporation controlled by the taxpayer in order to obtain certain benefits available under existing law. For example, if the taxpayer owns a patent, or a building which has materially increased in value and which he sells to a corporation which he likewise controls, the capital gains tax must ordinarily be paid by the taxpayer, but the building then has, in the hands of the corporation, an adjusted basis which is greater than the basis in the hands of the taxpayer by the amount of the gain realized on the sale to the corporation. The property being depreciable, the corporation will then be able to write off the increase in the adjusted basis over the remaining life of the building. These additional depreciation charges are, of course, an offset to ordinary income. Thus, in effect, the immediate payment of the capital gains tax has been substituted for the elimination over a period of years of the corporate income taxes on an equivalent amount.

The House bill attempted to eliminate the tax advantage from such transactions by denying capital gain treatment to the transferor with respect to sales or exchanges of depreciable property between a husband and wife or between an individual and a corporation more than half of the outstanding stock of which is owned by or for him directly or indirectly. For the purpose of determining ownership of stock under the House bill an individual would be considered as owning a portion of the stock held by a corporation, partnership, state or trust which reflects his interest as a shareholder, partner, or beneficiary. He would also be considered as owning stock owned directly or indirectly by or for his spouse, and if he and his spouse owned more than 10 percent of the outstanding stock of the company, he would also be considered as owning stock held directly or indirectly, by or for his brothers and sisters, ancestors and lineal descendants.

Upon consideration of this problem by your committee, it is of the opinion that a closer examination into the reported cases should be made before an amendment of this type is adopted. It appears that

the House provision would deny capital gains treatment to some bona fide transactions while failing to deny such treatment in cases of clear avoidance. For example, under the provision there would be no bar to the sale of property to a third person who then could sell it to the corporation. Your committee believes that action on this problem should be deferred until actual cases involving use of this avoidance device have been submitted for study. For this reason the bill eliminates the House provision.

It was estimated that the House provision would have increased the revenue by \$1 million annually.

VII. STRUCTURAL CHANGES IN THE EXCESS PROFITS TAX

Your committee's action with respect to the over-all ceiling on the excess profits tax and its action relating to the House amendment which reduced the excess profits income credit from 85 to 75 percent of average base period net income have been discussed in part IV of this report pertaining to general corporate rate changes.

In addition, your committee's bill includes several new provisions which deal with various other excess profits tax problems of a relief nature. A great number of these problems were brought to the attention of the committee during its hearings on this bill, and these problems were examined by the staff. Your committee has confined its action to those cases which present the most immediate and pressing need for statutory change. Of necessity, the committee has deferred action upon the bulk of excess profits tax proposals even though a number of the suggestions undoubtedly are meritorious.

It is believed that further action in this entire area should be deferred until the excess profits tax returns have been filed and there has been an opportunity to evaluate the detailed operation of the law. It is anticipated that this will be possible early in 1952. In the meantime, the staff will continue its study of the problems involved in this entire field.

In general, the following excess profits tax amendments made by your committee are effective retroactively to the time the excess profits tax became effective.

It is estimated that the excess profits tax amendments discussed below will decrease revenues by \$120 million in a full year of operation.

1. Extension of growth alternative to new corporations

Under section 445 of the present excess profits tax law, new corporations (those corporations which commenced business after the beginning of the base period) are entitled to compute a substitute earnings credit based on the industry rate of return applied to their total assets. They may also compute their earnings credit by averaging their base period earnings over 3 years, treating loss years and years in which they were not in business as zero. They are also entitled to the minimum excess profits credit of \$25,000. They may also use the ordinary invested capital credit.

While considerable attention was given to the problem of new corporations in the preparation of the present excess profits tax law, the primary relief provided them, namely, the use of an alternative average earnings credit based upon their industry rate of return, often proves

inadequate. Many new corporations have only limited assets to which they can apply the industry rate. Furthermore, the industry rate is often especially unrealistic in the case of new corporations because they frequently are engaged in relatively speculative undertakings and in various specialized activities which cannot be compared satisfactorily with the operations of established companies.

The major failure of the present treatment of new corporations is a failure to give adequate recognition to the growth typical of their normal development. New corporations are not entitled to the growth alternative under section 435 (e) of present law because this relief is available only to corporations which commenced business before the beginning of their base period (ordinarily January 1, 1946, and in no case later than April 1, 1946). The growth alternative was limited to corporations which commenced business before the beginning of the base period because the eligibility tests are based on comparisons of 1946 and 1947 with 1948 and 1949 or the first half of 1950, and it was believed that the extension of the growth formula to new corporations would prove unnecessary in view of the special alternative provided such taxpayers.

Your committee believes that equitable treatment of new corporations requires adequate recognition of the growth characteristic of them. Therefore, section 504 of your committee's bill removes the limitation now found in section 435 (e) (1) which prevents corporations which commenced business during the base period from applying the eligibility tests to their experience. Your committee's amendment will not apply to corporations which commenced business after the end of the base period since the eligibility tests under the growth formula are written in terms of base-period experience. However, such corporations formed in the excess profits tax period will have the benefits of the lower over-all tax ceilings provided by another section of your committee's bill for new corporations.

Corporations formed after 2 years of the base period had elapsed, and before the end of the base period, ordinarily will automatically become eligible for the growth alternative. This is because the eligibility requirements of section 435 (e) (1) (A) (other than the total asset limitation) are based upon a comparison of the taxpayer's total pay roll, or gross receipts, in 1946 and 1947 with its total pay roll, or gross receipts, in 1948 and 1949. Therefore, corporations formed in the latter half of the base period must automatically meet the tests of growth in those respects because such corporations had no pay rolls and no gross receipts in the first half of the base period. For corporations which commenced business prior to the middle of the base period (ordinarily January 1, 1948), qualification for the growth formula will not be automatic as in the case of the corporations described above, but should prove relatively easy in most cases since total payroll or gross receipts for 2 full years of the business in the second half of the base period will be compared with payroll or gross receipts for something less than 2 full years of business in the first half of the base period. This ease of qualification will diminish as the corporation's starting date approaches the beginning of the base period until for a corporation commencing business on the first day of the base period it will be on substantially the same footing as those old corporations now entitled to the growth alternative.

New corporations formed before the end of the base period which meet the eligibility requirements of section 435 (e) (1) (B) will also be entitled under your committee's bill to use the special growth alternative provided in section 435 (e) (2) (G). However, in order to qualify under that provision the corporation will have to have been in existence for all of 1949 and at least part of 1948 in order to meet the entrance requirement that their excess profits net income for the calendar year 1949 must have been not more than 25 percent of their excess profits net income for the calendar year 1948.

2. Special ceiling rate for new corporations

Although section 504 of your committee's bill extends the benefits of the growth alternative to certain new corporations commencing business after January 1, 1946, a number of new corporations will not be benefited by this. No new corporation formed after the end of the base period (usually December 31, 1949), for example, can be eligible for the growth alternative. Moreover, even new corporations commencing business during the base period may find the growth alternative of little benefit to them if their primary expansion in earnings came after 1950. In addition, your committee believes that despite the need for revenue in the present emergency every possible effort must be made to assure the creation and development of new techniques, new processes, and new corporations. This is desirable if the ability of this country to produce is to continue to expand.

As a result it is believed necessary to give assurance to new corporations in their initial period of development that the excess profits tax will not work undue hardship upon them. Section 501 of your committee's bill does this by providing a series of special ceiling rates available only to new corporations. As indicated on page — of this report your committee's bill provides a new type of ceiling rate of 17 percent with respect to excess profits tax liability. For ordinary corporations, this rate is to apply with respect to years beginning after March 31, 1951. On a similar basis, but retroactive to 1950, the first year the excess profits tax was in effect, your committee's bill provides the following series of ceiling rates applicable to excess profits net income which are to be available to certain new corporations organized after the beginning of their base period, with respect to the first \$400,000 of their excess profits tax net income:

	<i>Percent</i>
In the first year of a new corporation's business.....	5
In the second year of a new corporation's business.....	5
In the third year of a new corporation's business.....	8
In the fourth year of a new corporation's business.....	11
In the fifth year of a new corporation's business.....	14

For that part of the excess profits net income in excess of \$400,000, new corporations less than 6 years old are to be subject to a ceiling rate of 15 percent with respect to 1950, 16½ percent with respect to the calendar year 1951, and 17 percent with respect to taxable years beginning after March 31, 1951. Other corporations are also subject to the 16½ percent rate in the calendar year 1951 and the 17 percent rate with respect to taxable years beginning after March 31, 1951, but in their cases these rates are applied to their entire excess profits tax net income. In 1950 these other corporations in effect are subject to a ceiling rate on their entire excess profits tax net income which

is at least as high as the 15 percent rate applicable to new corporations with respect to their excess profits tax net income in excess of \$400,000.

In all cases the ceiling rates for small corporations will apply only to liability under the excess profits tax.

Your committee decided to provide a series of ceiling rates graduated according to the number of years a new corporation has been in business rather than providing a lower ceiling rate for one or two specific years for new corporations because it believes that the need of new businesses for this type of special relief varies in accordance with the number of years they have been in business. Also, a provision applying lower ceiling rates to specific years would create a notch problem leading to discrimination between companies formed before and companies formed after the "cut-off" dates.

These special ceiling rates, together with the effective income tax rates, will have the effect of providing for 1952 the following maximum effective rates of income and excess profits taxes for the excess profits net income levels shown:

Excess profits net income	Normal tax and surtax effective rates Senate Finance Committee action percent	Maximum effective rate of income and excess profits taxes				
		First and second year 5 percent	Third year 8 percent	Fourth year 11 percent	Fifth year 14 percent	Sixth and subsequent years 17 percent
\$60,000.....	41.58	46.58	49.58	52.58	55.58	58.58
\$75,000.....	43.67	48.67	51.67	54.67	57.67	60.67
\$100,000.....	45.75	50.75	53.75	56.75	59.75	62.75
\$200,000.....	48.88	53.88	56.88	59.88	62.88	65.88
\$300,000.....	49.92	54.92	57.92	60.92	63.92	66.92

These special ceiling rates available to new corporations in their period of development are not to be available to new corporations created as the result of either a tax-free reorganization or a taxable transaction of the type where, under your committee's action, the purchasing corporation would be entitled to base its income credit on the earnings experience of the predecessor. Your committee believes that such corporations do not truly represent "new business." However, where the predecessor corporation in a reorganization or taxable transaction was itself eligible for the special ceiling rates, the new corporation will determine its eligibility on the basis of when its predecessor commenced business. Also these ceiling rates are not to be available to new corporations principally engaged in Government business. Such a corporation is defined as one which derives more than 50 percent of its gross income for the taxable year from a contract or contracts to which the provisions of the Renegotiation Act of 1951 or any prior renegotiation law are applicable. These new businesses are deriving their principal income from Government contracts providing predictable and secure markets for their products, leaving little need for special relief. The special ceiling rates are denied new corporations whose assets were transferred from old corporations under the same control in order to prevent assets being transferred to obtain the benefit of the special ceiling rates. They are also denied new

corporations which are controlled by persons owning an old corporation engaged in the same business through old corporations.

The special ceiling rates are available only with respect to the first \$400,000 of a new corporation's excess profits net income because it is believed that relief is not needed for new corporations which have rapidly become large corporations. However, making these ceiling rates available with respect to the first \$400,000 of excess profits net income, even in the case of the larger corporations, prevents the development of a notch area and discriminatory treatment with respect to new corporations with incomes just over and just under \$400,000.

3. Special relief provision for companies engaged in television broadcasting during the base period

The bulk of the television broadcasting stations have been developed and are owned by corporations previously engaged in radio broadcasting. The development of television broadcasting has resulted in large losses for a great portion of the combined radio-television broadcasting industry continuing through at least part of 1950. The result of this has been to doubly penalize the industry, because 1947-49 television broadcasting losses have decreased the average earnings of the industry during the base period, while the profits shown for television broadcasting commencing in 1951 have further increased the proportion of the industry's profits which are subject to excess profits tax.

Your committee believes that the problem presented by the radio-television broadcasting business represents a unique situation which deserves special relief. It is an example on an industry-wide basis of new business superimposed on existing business. As a result, the general relief formulas, where available, provide little relief for these cases, since the earnings of the entire industry were depressed during most of the base period when television losses were incurred, but expanded substantially after the end of the base period after the new portion of the industry had begun to reach maturity.

As a result, section 519 of your committee's bill grants corporations which derived, during the base period, part of their gross income from television broadcasting and part from radio broadcasting an alternative method of computing their average earnings base period net income for excess profits tax purposes. They are given two new alternative methods of computing a rate of return for the base period and are permitted to apply to their total assets at the end of their base period whichever rate of return results in the lower tax. The first alternative rate of return is to be computed by eliminating from the corporation's own income in the period 1946 to 1949 its television losses and by eliminating from its assets in the same period those used in the television business. The rate of return is then to be computed on the radio business by the division of the income (excluding television income and losses) by the assets used otherwise than in television business. The second optional method permitted such businesses in the computation of their rate of return is the use of the industry's rate of return for the period 1946 to 1949.

The above method of determining base period earnings, where the company's own experience is used, represents, in effect, what the company would have earned had it remained in the radio broadcasting

business alone during the base period but had had the use of the assets held as of 1949 during the entire base period. Due to the lack of data on tax returns for the base period years as to television losses and assets devoted to television business, it is not possible to offer a similar alternative for those using the industry rate of return. Thus, in this case, it was only possible to permit the use of the unadjusted rate of return for the entire radio-television broadcasting industry.

In some cases corporations which are in the radio and television broadcasting business also derive part of their income from some other business, such as newspaper publishing. In order to permit such businesses to use the relief provision described above, section 519 of your committee's bill also provides that such other business may be treated, in effect, as if it were a separate corporation with respect to the computation of average base period net income. The radio and television business in such cases would then be eligible for the relief provision described above. To the average base period net income of the other business or businesses would be added an imputed average base period net income for the radio-television broadcasting portion of the corporation's operations, derived, in the way described in the preceding paragraph, by using either the individual corporation's rate or the industry rate as a return on the radio-television assets at the end of the base period.

4. Taxable exchanges

Part II of the Excess Profits Tax Act of 1950 provides rules under which an acquiring corporation may utilize the earnings experience of a predecessor corporation in computing its own average earnings base. However, under the Excess Profits Tax Act of 1950, the acquiring corporation may use this earnings experience only where the assets of the predecessor corporation were acquired in certain tax-free exchanges. In general, these tax-free exchanges occur where the assets of a predecessor corporation are acquired by the acquiring corporation in exchange for its stock. Under the present law the earnings experience of a predecessor corporation may not be used by an acquiring corporation where the assets were acquired by purchase for cash or in some other type of taxable exchange. This was also true under the World War II excess profits tax, but under that tax, the section 722 relief provisions, under certain conditions, provided for the reconstruction of an earnings record and the earnings experience of a corporation whose assets were purchased by a taxpayer provided, in some cases, a rough measure upon which to base such a reconstruction.

Your committee believes that, in the case of taxable exchanges, subject to certain limitations, where purchasing corporations have obtained substantially all of the assets of a predecessor corporation and such predecessor is liquidated, the earnings experience base of the predecessor corporation should be available to the purchasing corporation. Therefore, section 520 of your committee's bill provides that in the case of taxable exchanges occurring prior to December 1, 1950, where the predecessor corporation has been liquidated and a purchasing corporation has obtained substantially all of the predecessor corporation's assets, the purchasing corporation may use the predecessor corporation's base period experience in computing its average base period net income under the general average method. How-

ever, it is to be permitted the use of this base only to the extent that new funds were used for the purchase of these assets. These provisions are also to apply where the predecessor was a partnership, in which case the base period income of the predecessor is to be computed as if it were a corporation. A similar option is to be available for each of two or more corporations, if each new corporation purchased all the assets of a separate business of the predecessor, and the new corporations together purchased all the assets of the predecessor. Where the purchasing corporation purchased a business which comprises only a part of the assets of a predecessor which was liquidated, the portion of the base period experience of the predecessor which is to be made available to the purchasing corporation is to be determined under regulations providing an allocation based on the value or earning experience of the assets purchased by the purchasing corporation.

Your committee's bill further provides that in the case of taxable exchanges a purchasing corporation is not to be denied the use of the earnings base of a predecessor merely on the grounds that a franchise or license, which was an important source of earnings of the predecessor, cannot be transferred from the predecessor to the acquiring corporation, but must be obtained by the latter from the same source. An example of this would be an automobile dealer agency. In such cases the franchise to act as the representative of an automobile manufacturer generally must be acquired directly from the manufacturer.

Your committee's amendment is limited to taxable exchanges occurring before December 1, 1950, because of the possibility of abuse through purchase of corporate assets to obtain an increased excess profits credit if the provision were made applicable to the period after the excess profits tax provisions were known. Also it is believed that the greatest need for relief in the area is in the case of purchases which were made before the excess profits tax, when taxpayers had no way of knowing the future excess profits tax consequences which could result from a decision to enter into a taxable rather than a nontaxable exchange.

5. Base period abnormalities

Under present law, if an abnormality exists in the taxpayer's lowest year of earnings during the base period, that year is automatically eliminated from the average base period net income computation. However, if an abnormality occurred in one of the remaining periods of 12 months or less in the base period, section 442 of the code provides that the taxpayer may, if it was in business at the beginning of its base period, substitute for its actual excess profits net income for the period of the abnormality an amount determined by multiplying its total assets for the last day of the year of the abnormality by the rate of return of its industry for that period.

The alternative average base period net income provided by section 442 is available, if the taxpayer can establish for any taxable year within its base period either that its normal production, output, or operation was interrupted or diminished because of the occurrence, either immediately prior to, or during the taxable year, of events "unusual and peculiar" in the experience of the taxpayer or that the business of the taxpayer was depressed because of temporary economic circumstances unusual in its case. These tests frequently

may involve extremely difficult evidentiary problems, particularly with respect to a determination of the extent that any single event has affected the taxpayer's normal production, output or operation.

The philosophy upon which the existing relief provisions, including section 442, were developed was that automatic formulas, both as to eligibility requirements and as to the extent of the relief granted, are preferable to the approach of the World War II law with its requirement of subjective analysis and decision. Your committee believes it is desirable to maintain this approach of present law. Therefore, your committee has adopted an additional alternative eligibility requirement under section 442 which would eliminate, in many cases, the difficulties of proof previously referred to. Section 509 of the bill provides that where the earnings of the taxpayer's third-best base period year were less than 35 percent of the average of the earnings of his two best base period years, the taxpayer will automatically be entitled to use its industry rate of return for the third best year. This new provision is limited, however, so that the substituted earnings may not in any case exceed the average of the taxpayer's two best years.

The requirement of present law that the substitute excess profits net income provided by section 442 may be utilized for a single abnormal year only if it exceeds 110 percent of the taxpayer's excess profits net income for that year computed without the substitution will not apply to taxpayers who are eligible under your committee's amendment. Such a limitation is not necessary in view of the fact that the amendment requires no showing of an abnormality.

6. Change in products committed to prior to close of base period

Section 443 of present law provides that where a corporation made a substantial change in the products or services it furnished during the last 3 years of its base period, and, within 3 years after the change, the new product accounted for more than 40 percent of gross income or 33 percent of net income and net income increased 25 percent, then the corporation is entitled to determine its average base period net income by multiplying its industry rate of return by its total assets.

As the above description indicates, present law confines this type of relief to corporations which actually introduced a new product before the end of the base period. The present law limited this relief to products introduced in the base period primarily to avoid the possibility of giving the advantage of an automatic formula to corporations developing new products during the present emergency. However, it is clear that the danger which was sought to be avoided does not exist when the change in product was definitely committed to prior to the end of the base period and construction of the facilities to produce the new product had actually commenced before the beginning of the present emergency. In such cases, negotiations may have started early in the base period with respect to the development of a new product, and with respect to the construction of the necessary additional facilities. In cases similar to this your committee sees no valid reason why the relief intended by section 443 should be denied if carefully restricted so as not to give the benefits to new products developed during the emergency period.

As a result, section 511 of your committee's bill provides that where a substantial change in the products produced by a taxpayer has been

made after the end of the base period, such a change shall be deemed to have been made in the base period, for the purpose of qualifying for the alternative average base period net income available under section 443 of the code, if the taxpayer, prior to July 1, 1950, commenced the construction of the facilities necessary to the production of the new product, and if such construction and the production of the new product were in furtherance of a course of action to which the taxpayer (or corporation with which the taxpayer had the privilege of filing a consolidated return for its first excess profits tax year) was committed prior to the end of the base period. This commitment must have been evidenced, under your committee's amendment, by a contract with another person and that contract must have granted a license, franchise, or similar rights essential for the production of the new product.

7. Lessor railroad corporations

Section 448 of the code provides an alternative excess profits tax credit for certain regulated public utilities. In the case of railroads this alternative credit is equal to a return of 6 percent upon net assets after allowance is made for normal tax and surtax. To establish eligibility for this alternative credit a railroad corporation must be engaged "as a common carrier in the furnishing or sale of transportation by railroad" and must be subject to the jurisdiction of the Interstate Commerce Commission. Furthermore, such a railroad can qualify only if 80 percent or more of its gross income (computed without regard to dividends and capital gains and losses) is derived from the furnishing or sale of railroad transportation.

Although section 141 of the code permits the filing of consolidated returns by affiliated corporations which are regulated public utilities within the meaning of section 448, doubt has been raised as to whether a lessor railroad corporation which leases substantially all of its property to an operating lessee railroad corporation (which itself utilizes the public utility credit) may be joined with such lessee in the filing of a consolidated return. This problem has arisen because, although the lessor company is subject to the jurisdiction of the Interstate Commerce Commission, and although its properties are operated by the lessee as integral parts of its system in the furnishing or sale of transportation by railroad, and although its revenues, in the form of rental, are derived from such operation, the lessor does not itself operate the property and does not itself directly derive its revenues from the furnishing or sale of transportation.

The use of a consolidated return is desirable in the case of the affiliated corporations described above. Subsequent to the assumption of management and control of the lessor properties by the lessee, the facilities of the two corporations become, in practice, integrated parts of a unified transportation system.

As a result, section 514 of your committee's bill insures that certain lessor railroad corporations will be permitted to qualify for the regulated public utility credit where they file consolidated returns with their lessee railroad corporations.

8. Exempt excess output of sulfur, potash, metallurgical grade limestone and chemical grade limestone

Section 453 of the present law provides a partial exemption for coal and iron mines, timber properties, and natural gas and metal mining

properties not in operation during the base period. One-third of the net income in the current taxable year of these properties is exempt from excess profits tax. These provisions are similar to those in effect during World War II and were adopted in order to provide a greater incentive for the opening up of new properties.

Coal and iron mines, timber properties and natural gas properties which were in existence during the base period are also extended special relief under this provision by exempting from excess profits tax one-half the income from excess output during the taxable year. The excess output is the production in excess of average annual production from the property (whether or not then owned by the taxpayer) during the period 1946-June 30, 1950.

Nonmetallic minerals are not provided the special treatment described above, either in the case of new or old properties. Your committee recognizes that critical shortages have developed in certain limited areas which would justify the further extension of these provisions. This is particularly true with respect to sulfur and potash deposits and with respect to metallurgical grade limestone and chemical grade limestone deposits. Sulfur and potash are vital to many defense industries and are in short supply, while metallurgical and chemical grade limestones are a necessity for the steel and chemical industries, which are crucial to defense. It is believed that every incentive should be given for the opening up of new deposits and for the energetic development of existing properties. Therefore, section 515 of your committee's bill extends the special treatment available under sections 453 (b) (2) and (4) to sulfur, potash, and metallurgical or chemical grade limestone deposits.

9. Reductions in inadmissible assets subsequent to the base period

Under the 1950 Excess Profits Tax Act, changes in inadmissible assets subsequent to the base period do not constitute a capital addition or reduction (although reductions in inadmissibles are subtracted from capital reductions and increases in inadmissibles are subtracted from capital additions).

This provision of the present act adversely affects any taxpayer computing its excess profits credit under the income method (and not having a capital reduction after December 31, 1949) if it had substantial investments in inadmissible assets in 1949 which it disposed of in 1950 or 1951 in order to obtain funds to finance expanding manufacturing operations, facilities and inventories. Such a taxpayer's increased earnings resulting from the additional facilities employed in manufacturing operations may, under present law, be treated entirely as excess profits. This is because the taxpayer receives no additional excess profits credit for the funds transferred from inadmissible assets, the income from which was exempt from excess profits tax, to manufacturing facilities and inventories, the income from which is subject to excess profits tax. If the taxpayer obtained the additional capital for manufacturing operations by sale of its own securities or by borrowings, it would obtain an increase in excess profits credit. For such a taxpayer not to receive an additional excess profits credit on additional working capital obtained from disposal of inadmissible assets appears inequitable.

To correct this situation, section 507 of your committee's bill provides that in computing the average earnings credit, reductions in in-

admissibles subsequent to the base period are to be allowed a credit as capital additions provided that the additional capital is invested in operating assets. Operating assets are defined as tangible inventory items and tangible property used in the taxpayer's trade or business.

10. Inadmissible assets of banks

Under present law, both the taxpayer using the average earnings credit and the taxpayer using the invested capital credit are allowed to increase their credit by specified percentages of the net additions to their capital after 1949. However, except in the case of taxpayers with less than \$5 million of capital who use the invested capital credit based on assets, and, except in the case of taxpayers who use the credit based on the historical invested capital, an increase in investment in inadmissible assets will offset dollar for dollar what would otherwise be a capital addition, even though the increase in total assets available for investment is greater than the increase in capital. For example, if a corporation increases its capital by \$1 million on the first day of an excess profits tax year and then on the same day invests \$500,000 of the new capital in inadmissible assets, it is only allowed under the present law to increase its credit for that year with respect to \$500,000, because the \$500,000 increase in inadmissibles is subtracted from the capital addition of \$1 million in arriving at the net addition to capital which may be taken into account.

The treatment described above works a considerable hardship upon banks, since they invest additional funds deposited with them as well as their additional capital, so that, for example, investment of 10 percent of their additional assets in inadmissible municipal bonds may completely offset their capital additions. An increase in the capital of a bank makes possible an increase in deposits of several times that amount, total assets being increased by the sum of the new capital and increased deposits. Yet, even though its taxable income is thus increased, under present law the bank may have no additional credit based upon the new capital.

Section 506 of your committee's bill provides that while a bank's increase in inadmissibles in an excess profits tax year will still serve to reduce its increase in capital in the same year, the capital additions will be reduced by an amount based on the ratio of additional inadmissible assets to the additional total assets acquired since the beginning of its first excess profits tax year. A similar proportion is to be used where there is a decrease in inadmissible assets.

This section of the bill also provides an adjustment of the inadmissible asset factor in the computation of base period capital additions for banks which is based on the same ratio principle.

11. Dealers in municipal bonds

In computing the invested capital credit and in computing capital additions, certain adjustments are made to exclude from the invested capital certain assets known as "inadmissible assets." These include stock in other corporations, State and local government obligations and partially tax-exempt Federal obligations. The reason for this exclusion from invested capital of such assets is that the income from them is not subject to the excess profits tax.

However, dealers in municipal bonds are subject to excess profits tax on their profits from the sale of these bonds. This is because municipal bonds are their stock in trade or inventory and the gain on

the sale of the bonds is treated, therefore, as ordinary income rather than as a capital gain. It is reported that municipal bonds frequently constitute 80 to 90 percent of the total assets of these dealers.

The above treatment is manifestly inequitable. Because municipal bonds are required to be excluded from the taxpayer's invested capital, he is in practice denied an invested capital credit with which to offset his normal earnings from the sale of such bonds. This inequity did not arise under the World War II excess profits tax because, under that law, taxpayers were permitted, at their option, to treat tax-exempt or partially tax-exempt bonds as admissible assets if they elected to include the interest received from such bonds in excess profits tax net income. Your committee believes that, while a similar option should not be extended to all taxpayers under the present law, because the invested capital credit rates, ranging from 8 to 12 percent, are completely disproportionate to the low-interest rates on tax-exempt bonds, such treatment should be extended to municipal bond dealers since most of their income with respect to these bonds arises from profit on their sale and such income is subject to excess profits tax.

As a result, section 508 of your committee's bill provides, in effect, that where tax-exempt bonds are held by a dealer primarily for sale to customers in the ordinary course of his trade or business, the dealer may elect to treat such bonds as admissible assets, provided that he also elects to include in his excess profits tax net income the interest on such bonds.

12. Regulated public utility credit for intrastate pipelines

The alternative excess profits tax credit for certain regulated public utilities provided by section 448 of the code extends, under present law, to corporations engaged as common carriers in the furnishing or sale of gas, oil or other petroleum products (including shale oil) by pipeline, if subject to the jurisdiction of the Interstate Commerce Commission. The alternative credit in these cases is, in effect, equal to a return of 6 percent upon total equity and borrowed capital after normal tax and surtax.

It has been brought to the attention of your committee, that, since the jurisdiction of the Interstate Commerce Commission extends only to interstate pipelines, the special credit provided by section 448 is denied those pipelines whose operations are entirely intrastate in character. This distinction appears inequitable with respect to these latter corporations if their operations are subject to regulation by State regulatory bodies. The necessity for guaranteeing these utilities a minimum return after normal tax and surtax before application of the excess profits tax would appear to be as clear in this area as with respect to interstate pipelines.

Section 513 of your committee's bill amends section 448 of the code to provide that pipeline common carriers subject to the jurisdiction of the public service commissions of any State shall be eligible for the regulated public-utility credit. The same 6 percent credit is made applicable as in the case of interstate pipelines.

13. Management and technical service fees

Section 433 (a) (1) (A) of the present law provides the same 100-percent credit against excess profits net income for dividends received from foreign corporations as is allowed in the case of dividends from

domestic corporations. Section 502 of your committee's bill extends a similar exclusion to management and technical service fees paid to domestic corporations by certain affiliated foreign corporations in return for information and other services furnished in connection with products of the type manufactured by the domestic corporation. Your committee believes that the rendering of technical assistance to foreign businesses by American corporations should not be discouraged by subjecting fees received for such services to the excess profits tax. In general, such management and technical service fees do not reflect profits from the domestic rearmament program and are usually small in amount. The exemption is limited so as not to exclude from excess profits tax the income of a corporation whose principal business is furnishing technical, etc., services.

The bill makes a conforming amendment in that it excludes these earnings of domestic corporations from their base period earnings, thus equating the treatment of both base period and excess profits tax period earnings. Likewise any expenses attributable to the production of this type of income are disallowed as deductions under your committee's amendment.

14. Technical amendment relating to new corporations

A new corporation computing its income credit under section 445 for any of its first 3 years which are excess profits tax years is, under the present law, entitled to apply the industry rate of return only to its total assets at the beginning of the excess profits tax period plus its net capital addition less its net capital reduction after the end of the base period. Thus, the industry rate can be applied only to increases in its equity capital and 75 percent of increases in its borrowed capital, to the extent that its assets are acquired after the beginning of its first excess profits tax year. This treatment is less favorable than that provided for other new corporations or that provided for corporations using other relief sections involving the industry rate of return because it provides for the inclusion of only 75 percent of borrowed capital.

Your committee's bill corrects this technical deficiency of present law. Section 512 of the bill provides that a new corporation computing its income credit under section 445 for any of its first 3 years which are excess profits tax years is to be entitled to its industry rate of return applied to equity capital plus 100 percent of borrowed capital, less interest on borrowed capital.

15. Technical amendment of growth alternative

Section 435 (e) (2) (G) of the code provides a special alternative average base period net income for corporations whose excess profits net income for 1949 is not more than 25 percent of its excess profits net income for 1948. In effect, such a taxpayer is granted an alternative average base period net income equal to the sum of one-half its excess profits net income for 1948 and 40 percent of its excess profits net income for 1950.

In order to qualify for the above alternative, present law requires that the taxpayer qualify for the growth credit "only" under the provisions of section 435 (e) (1) (B). The latter section permits the use (without limitation as to the amount of assets) of the general growth alternative if the taxpayer meets certain tests of increased net sales of new products in the base period. However, section 435 (e) (1) (A)

has an alternative eligibility requirement for taxpayers whose total assets at the beginning of the base period did not exceed \$20 million. This alternative eligibility requirement is based upon certain tests of increased payroll and gross receipts.

Your committee is unaware of any valid reason why the alternative average base period net income provided by section 435 (e) (2) (G) should be denied to taxpayers qualifying for the growth alternative both under section 435 (e) (1) (B) and 435 (e) (1) (A).

To correct this anomaly of present law, section 505 of your committee's bill extends the benefits of section 435 (e) (2) (G) to taxpayers qualifying under section 435 (e) (1) (B) whether or not they qualify under section 435 (e) (1) (A).

16. Base period of fiscal-year corporations

The present law provides certain variations in the base period with respect to corporations on a fiscal-year basis. Taxpayers with fiscal years ending after December 31, but before April 1, use as their base period 48 months ending with their last taxable year ending prior to April 1, 1950. For example, a taxpayer with a March 31 fiscal year has as its base period the 48 months from April 1, 1946, through March 31, 1950. A somewhat different procedure is followed in the case of taxpayers whose fiscal years end after March 31 and before December 31. Such taxpayers are required to use the 48-month period beginning on January 1, 1946, and ending on December 31, 1949. Thus, a taxpayer with fiscal years ending on June 30, for example, must compute its income for the first 6 months of 1946 by taking half its actual income for the year ended June 30, 1946. Such a taxpayer would have its average base period earnings affected by the last two quarters of 1945 and the first quarter of 1946. Inasmuch as those quarters were typified by low earnings generally, the inclusion of that period usually results in a reduction of the taxpayer's average earnings.

In order to correct this hardship, section 503 of your committee's bill provides that the base period of any taxpayer with a fiscal year ending after March 31, 1950, may, at its option, for purposes of the general average method of computing the excess profits credit, be the 48 months ending with March 31, 1950.

17. Consolidated returns

Section 612 of your committee's bill amends the consolidated return provisions of the code to permit a corporation exempt from excess profits tax under section 454 (f) of the code, which has filed a consent to be included in a consolidated return for a taxable year ending after June 30, 1950, the right to amend its election within 90 days after the effective date of this act.

Under the Excess Profits Tax Act of 1950, an affiliated group of corporations entitled to file a consolidated return may include corporations receiving at least 95 percent of their income from foreign sources if these corporations file consents in a taxable year ending after June 30, 1950. Corporations of this type would be exempt from excess profits tax under section 454 (f) of the code unless they file such consents, and these consents are irrevocable. Many of these consents were filed under circumstances where there was inadequate time for the taxpayers to adequately assess the effects of such action.

It is deemed proper to allow them a limited period of time to reconsider their action.

18. Capital reduction for loans made by parent corporations to subsidiaries

Section 510 of your committee's bill provides that where a subsidiary corporation computes its average earnings credit on the basis of the industry rate of return applied to its total assets and where such subsidiary has borrowed funds from its parent corporation on open account, the amount so borrowed shall be eliminated from its total assets.

This is necessary to close a loophole in the existing excess profits law. Under present provisions, a parent corporation does not incur a capital reduction by reason of amounts loaned on open account to subsidiaries. The subsidiary, however, would obtain an increase in the amount of its total assets to which the industry rate of return is applied under several of the relief sections. By excluding from the total assets of the subsidiary the amount represented by such loans from a parent corporation or from a member of a controlled group, the amendment made by your committee prevents duplication in computing the credits of the respective corporations.

This amendment is effective with respect to taxable years ending after the date of enactment of this bill.

19. Transitions from World War II production and increases in peacetime capacity

The attention of your committee has been called to cases where corporations have been fully engaged in war business during World War II and as a result have had difficulties during 1946 and 1947 in converting to peacetime production. As a result, their earnings in these years have been relatively low. Nevertheless, they have invested large amounts in plant and facilities in anticipation of securing a broad-gauge peacetime market. However, to a substantial degree many such corporations were not successful in tooling up for extensive production until 1949 or 1950. Thus, although they are not engaged in war production, such corporations find themselves subject to heavy excess profits taxes although the war economy has had little effect on their business. To the extent that such corporations had low earnings in 1949, they would receive little benefit from the growth provision generally available, even where they are eligible for it.

Your committee believes that corporations of this type whose profits are attributable to peacetime production should be able to use their earnings experience late in the base period and early in 1950 as the basis for the computation of their average earnings base for excess-profits-tax purposes. Therefore, section 516 of your committee's bill extends to corporations meeting certain requirements the benefits of the special growth formula described in section 435 (e) (2) (G) of the code. In general, this permits corporations to compute an alternative average base period net income on the basis of the sum of one-half of their income in 1948 and 40 percent of their income in 1950.

The requirements provided by your committee for the benefits of this provision are:

1. The adjusted basis of the corporation's real property and tangible depreciable property must not be in excess of \$10 million on the first day of its base period.

2. Seventy percent of the corporation's income for the years 1942 through 1945 must be attributable to contracts with the United States or related subcontracts, but less than 20 percent of the corporation's income during the base period and in the calendar year 1950 must be attributable to contracts with the United States or related subcontracts.

3. The unadjusted basis of the corporation's real property and depreciable tangible property at the end of its base period must be 250 percent or more of the basis of such facilities on the first day of its base period.

4. Both the corporation's profits in 1945 and the average of its profits in 1948 and 1949 must be at least 300 percent of the average of its profits for 1946 and 1947.

20. Special relief provision for corporations suffering catastrophes

Section 442 of the code provides that, in the case of corporations having abnormalities in one of their three highest base-period years, their industry rate of return for the year of the abnormality, multiplied by their total assets in such year, may be substituted for the earnings in their year of abnormality. In the case of abnormalities in two or all of their three highest years, it provides that the average industry rate of return for the base period, multiplied by their average total assets for the base period, may be substituted for their base-period earnings. Although your committee believes that this is satisfactory in the case of most abnormalities, it appears that where a fire or explosion or other similar catastrophe has destroyed an important part of the corporation's productive facilities, the credit computed under section 442 may be inadequate. The corporation may have base-period experience prior to the catastrophe which indicates that in the absence of the loss it would have had earnings substantially above the earnings constructed by applying its industry's rate of return to its total assets.

Therefore, section 517 of your committee's bill provides that manufacturing corporations suffering from a catastrophe in the last 36 months of the base period may substitute their average excess profits net income in their base period, prior to the year in which the catastrophe occurred, for their earnings during the year in which the catastrophe occurred.

A catastrophe is defined as a fire, storm, explosion, or other casualty which rendered inoperative all of the facilities of a plant or plants accounting for at least 15 percent of a corporation's total facilities, for a period of at least 12 months during the last 3 years of the base period.

21. Consolidation of newspapers

Where two newspapers have consolidated a majority of their operational facilities, a failure to recognize the increased earnings attributable to that consolidation as normal earnings can result in considerable hardship to the taxpayers involved. This is because credits based on the earnings experience of two independent newspapers in the base period may not fairly represent what the earnings would in fact have been had they consolidated their operations early in or prior to the base period. The fact of consolidation may increase the rate of profit through a smaller overhead force and through the joint use of plant

and equipment. Profits attributable to such increased efficiency should not be assumed to be excess profits.

In order to correct this situation, section 518 of your committee's bill extends the alternative average base period net income provided for growth companies under section 435 (e) (2) to any taxpayer which was engaged primarily in the newspaper publishing business prior to the end of the base period and which, after the middle of its base period and prior to June 30, 1950, consolidated substantially all of its mechanical, circulation, advertising, and accounting operations in connection with its newspaper publishing business with the similar operations of another corporation engaged in the newspaper publishing business in the same locality.

In order to be eligible for this alternative, the taxpayer must establish to the satisfaction of the Secretary that the consolidation resulted in substantial reductions in the expenses which would have been incurred had the consolidation not taken place. Furthermore, the deductions of the taxpayer for the taxable year following that of the consolidation must not have been in excess of 80 percent of the average of those deductions for the 2 years preceding the consolidation, and the taxpayer's income in the year following the consolidation must have been at least 125 percent of its average base period income. These eligibility requirements are designed to furnish automatic indications that an increase in income and a reduction in expenses have in fact occurred since the consolidation.

VIII. STRUCTURAL CHANGES IN ESTATE AND GIFT TAXES

A. PROVISION IN THE HOUSE BILL ALSO IN YOUR COMMITTEE'S BILL

1. *United States bonds held by nonresident aliens*

Section 603 of this bill and section 503 of the House bill contain identical provisions dealing with the status under the estate and gift taxes of obligations of the United States Government owned by nonresident aliens not engaged in trade or business in the United States. Prior to March 1, 1941, the transfers of such obligations were exempt by regulation even though the transfer of similar securities issued by domestic corporations was taxable when the evidence of the obligation was in the United States. This exemption was based on the theory that an exemption from "all taxation" of such bonds when held by foreign investors included exemption under the estate and gift taxes.

On March 1, 1941, a new regulation was issued which made the taxability of transfers of such securities under the estate and gift taxes depend on the same considerations which would apply in the case of bonds of domestic corporations. The new ruling was based on the theory that the exemption of such Government securities from "all taxation" meant exemption from direct taxes only and did not include exemption from the transfer taxes. The new regulation applied only to securities issued after March 1, 1941.

This revised regulation was held to be invalid in *Jandorf's Estate v. Commissioner* (171 F. (2d) 464), a decision of the Court of Appeals, Second Circuit, dated December 21, 1948, and in *The Pennsylvania*

Company v. United States, a decision of the Court of Appeals, Third Circuit, in November 1950.

Both your committee's bill and the House bill give statutory sanction to the policy of the March 1, 1941, regulation. The result will be that for estate and gift tax purposes United States Government securities will receive the same treatment as other types of domestic bonds. This treatment will also conform with the policy of taxing the interest on such Government bonds under the income tax when received by nonresident aliens.

The amendment will apply only to obligations issued by the United States on or after March 1, 1941, which are transferred in the estates of decedents who die after the date of enactment of the Revenue Act of 1951 or by gifts made after such date.

The revenue effects of this provision are minor.

B. PROVISIONS ADDED BY YOUR COMMITTEE

1. *Estate taxes of servicemen killed in Korea*

Your committee's bill provides the same estate tax treatment for members of the Armed Forces dying in combat zones or from wounds received in combat zones as was previously provided during World War II.

Section 605 provides that the estate tax shall not apply to the estates of decedents dying while in active service as a member of the military or naval forces of the United States if the decedent was either killed in action while serving in a combat zone, or died as a result of wounds or other injuries, or a disease, suffered while in line of duty by reason of a hazard to which he was subjected as an incident of such military or naval service.

This provision is effective with respect to deaths occurring after the commencement of hostilities in Korea (June 24, 1950) and before January 1, 1954.

2. *Pre-1916 transfers with reversionary interests retained*

Under the present law a transfer in trust prior to 1931 is not subject to estate tax by reason of the retention of a life estate and a transfer prior to October 8, 1949, is not subject to estate tax by reason of the retention of a reversionary interest unless the reversionary interest is express, rather than arising by operation of law, and exceeds 5 percent of the value of the property immediately before the decedent's death. The present law makes no distinction between transfers made before the enactment of the estate tax, September 8, 1916, and transfers made after that date. However, from 1927 to 1934 the regulations provided that transfers made before enactment of the estate tax would not be taxable. Also, prior to the decision of the Supreme Court in the *Hallock* case in 1940 it was felt that property would not be taxed in a decedent's estate by reason of his retention of a reversionary interest.

A case has been brought to the attention of your committee in which the decedent made a transfer in trust in 1903 retaining a reversionary interest which was worth about 14 percent at the time of her death in December 1949. As a result of the retention of this minor interest, the entire estate is subject to tax.

In order to avoid this severe hardship, section 608 of your committee's bill provides, in effect, that property will not be included in the estate of a decedent by reason of the retention of a reversionary interest in a transfer made prior to September 8, 1916, where the decedent died after February 10, 1939, the date of enactment of the Internal Revenue Code.

3. Reversionary interest of decedents dying prior to February 10, 1939

The provisions of the Technical Changes Act of 1949 apply only with respect to decedents dying after February 10, 1939, the date of enactment of the Internal Revenue Code. In the case of such decedents, property is included in the gross estate by reason of the retention of a reversionary interest in a transfer made before October 8, 1949, only if the reversionary interest is express and is worth more than 5 percent immediately before the decedent's death.

On March 18, 1937, Treasury Decision 4729 was issued by the Treasury Department, providing that property should not be taxed by reason of the retention of a reversionary interest. In order to treat the estates of decedents dying before February 11, 1939, and after March 18, 1937, in accordance with the law then in effect, section 606 of your committee's bill provides that property transferred by a decedent dying in such period is not to be included in the estate of the decedent because of a possibility of reverter if the regulations in effect at the time of the death of the decedent did not provide for the inclusion of property so transferred.

4. Decedents dying in 1950 with pre-1931 life estates retained

The Technical Changes Act of 1949 provided that, in the case of life estates retained in transfers made on or before March 3, 1931 (and in some cases before June 7, 1932), the property would not be included in the decedent's gross estate by reason of retention of the life estate if the decedent died before January 1, 1950. The 1949 act also provided that these life estates could be released free of estate and gift tax at any time during 1949 or 1950. The 1949 act containing this tax-free release provision became law on October 25, 1949. There have been several cases in which decedents died in 1950 before releasing their pre-1931 life estates, possibly because they were not aware of the tax-free release provision or were not in condition to effect a release.

Since these life estates could have been released at any time during 1950 without estate tax, it seems equitable to your committee that the January 1, 1950, date in the 1949 act be changed to January 1, 1951, so that the period in which death might occur without estate tax will be consistent with the period for tax-free release of these life estates.

Therefore, in the case of life estates retained in transfers made on or before March 3, 1931, section 607 of the bill provides that property will not be included in the decedent's gross estate by reason of retention of the life estate if the decedent died before January 1, 1951 (instead of January 1, 1950, as provided by present law).

5. Reversionary interests in life insurance—Decedents dying after October 21, 1942

The Revenue Act of 1942 provided that, in determining the proportion of life-insurance premiums paid by the decedent, premiums paid by a decedent on or before January 10, 1941, shall be included if

the decedent at any time after that date possessed an incident of ownership in the policy. Since a reversionary interest was construed to be an incident of ownership, the retention of any reversionary interest, regardless of its size and regardless of whether it was express or by operation of law, had the effect of making the premiums paid by the decedent includible for purposes of the premium payment test. In order to make the treatment of life insurance consistent with the treatment of other property under the Technical Changes Act of 1949, the Revenue Act of 1950 provided that a reversionary interest should be considered an incident of ownership only if it were express and, at some time after January 10, 1941, exceeded 5 percent of the value of the policy. The provision in the 1950 act was an amendment of the Revenue Act of 1942, so that it was effective with respect to the estates of decedents dying after October 21, 1942. However, the 1950 provision did not provide for the reopening of closed cases. In this respect it was different from the 1949 amendment of section 811 (c), which provided a 1-year period during which claims for refund could be filed for closed cases.

In order to correct that deficiency, section 609 of your committee's bill amends section 503 of the Revenue Act of 1950 in order to permit the reopening of closed cases if a claim is filed within 1 year from the date of the enactment of this bill.

6. Foreign estate tax credit

Under present law the United States asserts estate tax liability with respect to the entire estate, wherever situated (except real property outside the United States), of decedents who were either domiciled in the United States or citizens of the United States. Since many other countries, like the United States, tax property situated within their boundaries, estates of nonresident citizens of the United States are quite likely to be subjected to a double tax. With a considerable number of foreign countries, the United States has entered into estate tax conventions which provide relief for this problem and other treaties at present are under consideration. However, in many other cases the possibility of double taxation still exists, and cases have been brought to the attention of your committee where, as a result of this double taxation, estates with foreign investments have been taxed much more heavily than similar estates subject only to domestic tax.

Section 602 of your committee's bill removes this double taxation by providing a foreign estate tax credit in the case of United States citizens and residents (subject to a limitation indicated below) where the double tax arises from the United States imposing a tax on the entire estate, and a foreign country imposing an estate tax on property situated within that country. The foreign estate tax credit is allowed both against the basic estate tax and the additional estate tax. As in the case of the income tax, a foreign tax credit is allowed in the case of those who were residents but not citizens of the United States only if the foreign country in which the decedent was a citizen allows a similar foreign tax credit in the case of citizens of the United States who are residents of that country. As in the case of the foreign tax credit allowed for income tax purposes, the foreign estate tax credit is limited in a manner which permits the offsetting of taxes paid the foreign country with respect to property situated in that country only to the extent that such property is taxed by the United States. Thus, if a

foreign country imposes an estate tax at a higher effective rate than that provided by the United States, a credit is to be allowed only to the extent of the effective rate of tax imposed by the United States.

This provision is effective with respect to estates of decedents dying after the date of enactment of this bill.

7. *Works of art loaned by nonresident aliens*

Section 604 of your committee's bill provides that works of art owned by a nonresident alien which are loaned to public galleries or museums in the United States for exhibition purposes shall be exempt from estate tax if the nonresident alien dies while the works of art are in this country.

Present law (sec. 863 (c) of the code) limits the exemption to works of art loaned to the National Gallery of Art.

This provision is effective with respect to estates of decedents dying after the date of enactment of this bill.

The revenue loss from all of the changes in the estate and gift tax changes made by this bill are expected to decrease revenues by \$2 million.

IX. EXCISE TAX CHANGES

It is estimated that at the levels of production anticipated in the fiscal year 1952 excise tax changes by your committee's bill, when fully effective, will raise revenues by \$1,275 million as compared with \$1,252 million under the House bill. As shown in table 11, almost all of the excise-tax revenue provided by both your committee's bill and the House bill is raised from the manufacturers' excises, the new taxes on gambling and the taxes on alcoholic beverages and tobacco. No rate increases are provided in the case of the retail excises, the excises on transportation and communication or the admissions taxes, because the rates of these taxes generally are already quite high. Not only are most of these taxes imposed at rates around 20 percent, but also they are based on the retail price or the amount charged the consumer, which may range up to twice the manufacturer's price. As a result, these rates now are generally three to four times as high as most of the manufacturers' excises, usually levied at a 10 percent rate on the manufacturers' prices.

TABLE 11.—*Excise-tax revenue raised by the bill by major sources*

[At estimated fiscal year 1952 levels of production and consumption but in a full year of operation]

Type of excise tax	Additional revenue	
	House bill	Committee bill
	<i>Millions of dollars</i>	<i>Millions of dollars</i>
Alcoholic beverages.....	\$252	\$252
Tobacco products.....	177	167
Manufacturer.....	447	488
Retail.....	—5	—7
Transportation and communication.....	—5	—14
Amusement and recreation.....	—21	—18
Gambling.....	407	407
Total.....	1,252	1,275

The excise-tax changes made by your committee's bill become effective on the first day of the first month which begins more than 10 days after the date of enactment of the bill. Your committee's bill also provides that the excise-rate increases are to expire on December 31, 1953. No termination date was provided for the excise-tax increases made by the House bill, but the same provision applied with respect to the time when the excise-tax changes were first to become effective. Assuming that November 1 is the effective date for these changes, it is estimated that your committee's bill will increase excise-tax revenues by \$823 million in the fiscal year 1952 (this includes the floor stock taxes), raising total receipts for 1952 from excises to \$9,383 million. With this same assumption, the House bill would increase excise collections in 1952 by \$811 million, raising total excise receipts in 1952 to \$9,371 million.

A. ALCOHOLIC BEVERAGES

The additional revenue estimated to be derived from the taxes on alcoholic beverages in a full year of operation is distributed among the various excises under both the House bill and your committee's bill as follows:

[In millions]

	House bill	Committee bill
Distilled spirits (including increased draw-back).....	\$168	\$168
Beer.....	68	68
Wines.....	8	8
Occupational taxes on dealers in liquor.....	8	8
Total.....	252	252

1. Distilled spirits

Section 441 of your committee's bill increases the tax on distilled spirits imposed by sections 1650 and 2800 of the Internal Revenue Code from \$9 to \$10.50 per proof gallon. This is the same increase as is made by the House bill. The increase of \$1.50 per proof gallon amounts to about 26 cents a fifth on the ordinary type of whisky bottled at about 85 proof. Under present law the \$9 per gallon tax on distilled spirits averages about 40 percent of the retail price per bottle, including tax. The tax imposed by both your committee's and the House bills would raise this figure to about 43 percent. This assumes the addition in full of the tax to current prices, but no price mark-up on the tax.

During World War II and the immediate postwar years consumption of distilled spirits climbed almost continuously in spite of higher liquor taxes and prices, reaching a peak consumption in 1946 when consumers purchased more than 230 million wine gallons of distilled spirits for which they spent \$5 billion, or 3 percent of their total disposable income. High income levels and the inability of consumers to purchase scarce durable goods probably were the most important factors in accounting for this high consumption level. Although consumption of liquor declined during the postwar years, since the outbreak of hostilities in Korea it has again been increasing, and the 1950 consumption of 190 million wine gallons was higher than in any prior

years except 1945 and 1946. The acceleration of the defense program presents the likelihood that income levels again will rise and that consumers again will have to cut down their purchases of durable goods. Your committee believes that, under the conditions described above, it does not appear the increase provided by the bill will seriously affect the consumption level of liquor. Thus, it is not believed that the tax increase provided here will have much effect on the industry.

From the standpoint of the consumer it is not believed that this tax increase will prove to be particularly burdensome, since the limited data available suggest that up to income levels of \$5,000 this tax bears about equally on the various income levels.

Your committee carefully reviewed the increase in the tax on distilled spirits with reference to the problem of bootlegging. It found that even under present tax rates there is a substantial financial incentive to engage in illicit operations of this type, which had been held at a relatively low level only as a result of enforcement measures. However, any increased financial incentive for illicit operations resulting from the tax increase provided by your committee's bill is likely to be more than offset by a tightening of the labor supply available for these operations and by higher incomes on the part of consumers, which will decrease the importance of the price differential between tax-paid and non-tax-paid liquor. Nevertheless, it was recognized that too large an increase in the tax on distilled spirits might well result in a sizable increase in illicit operations.

At the present time, although the general tax rate on distilled spirits is \$9 a proof gallon, a draw-back of \$6 per proof gallon is provided for distilled spirits used for medicines, medicinal preparations, food products, flavors, leaving a net tax of \$3 per proof gallon in such cases. Draw-backs are used rather than reducing the rate of tax, because a lower rate might result in distilled spirits being diverted to beverage purposes on which the higher rate of tax should be paid. Using these medicines and nonbeverage food products as a source of revenue, however, appears to be in contradiction to the policy generally followed of not imposing excise taxes on medicines or food. In part, this principle is recognized under present law by providing a draw-back of all but \$3 of the tax per proof gallon. Both your committee's and the House bills recognize this principle in full by increasing these draw-backs so that a net tax of only \$1 per proof gallon, sufficient to cover administrative costs, is finally paid. With the tax rate of \$10.50 per proof gallon this is accomplished in section 452 of the bill providing in section 3250 of the code a draw-back of \$9.50 per proof gallon.

It is estimated that in a full year of operation the changes made in the tax on distilled spirits by both your committee's and the House bill will increase revenues by \$168 million.

2. Beer

Section 443 of the bill increases the tax imposed on fermented malt liquor, or beer, by sections 3150 and 1650 of the code by \$1 per barrel, or from the \$8 per barrel provided by present law to \$9 per barrel. This represents the same increase as is made by the House bill. This is an increase in tax of 12½ percent as contrasted to an increase of 16½ percent provided in the case of distilled spirits. Under present law the tax on beer represents about 15 percent of the average retail

price and under both your committee's and the House bills this is increased to between 16 and 17 percent. In the case of a 12-ounce bottle of beer the tax increase represents an increase of about one-third of 1 cent.

The increase provided for beer is smaller than that provided for distilled spirits because your committee believes that beer to a greater extent is consumed by the lower income groups and, therefore, that an increase in this tax generally is more burdensome than the tax on distilled spirits.

With the present high income and consumption levels it appears probable that much, if not all, of the tax increase provided for beer can be shifted by the industry to the consumer without seriously affecting the current level of consumption. Thus it is not anticipated that this tax increase will have any important effect on the industry.

In a full year of operations it is estimated that the \$1 per barrel increase in the tax on beer will raise revenues by about \$68 million.

3. Wines

Section 442 of the bill amends sections 3030 and 1650 of the code to provide for the same increase in the tax on wines as in the case of beer, namely, an increase of approximately 12½ percent. Thus, in the case of still wines, including vermouth, the tax per gallon would be—

(a) increased from 15 to 17 cents where the alcoholic content of the wine is not more than 14 percent,

(b) increased from 60 to 67 cents where the alcoholic content of the wine is over 14 percent but not over 21 percent; and

(c) increased from \$2 to \$2.25 where the alcoholic content of the wine is over 21 percent but not over 24 percent.¹⁴

In the case of sparkling wines, liqueurs, and cordials the tax per half pint would be:

(a) increased from 15 to 17 cents in the case of champagne or sparkling wines; and

(b) increased from 10 to 12 cents in the case of liqueurs, cordials, and artificially carbonated wines.

These are the same increases as are provided by the House bill.

Most of the wine consumption in the United States today is represented by the first two categories of still wines. Natural, or table, wines with an alcoholic content not over 14 percent and including such wines as sauterne, claret, and burgundy represent about one-quarter of the total consumption. Sweet or dessert wines with an alcoholic content between 14 and 21 percent and including such wines as port, sherry, tokay, and muscatel represent approximately three-fourths of the total consumption in the United States today. These wines are fortified with brandy or alcohol before the natural fermentation is completed. Sparkling wines account for most of the small remaining consumption in the United States today and in large part represent imports.

In terms of retail price the tax under present law represents about 4 percent of the retail price, including tax, in the case of table wines, and would be increased by about one-half of 1 percent under both your committee's and the House bills. The tax on sweet wines under present law represents about 15 percent of the retail price and under both bills this percentage would be increased by slightly more than 1 per-

¹⁴ Wines with alcoholic content in excess of 24 percent are subject to the tax on distilled spirits.

centage point. The tax on sparkling wines represents about 25 percent of the retail price under present law and under both bills this would be increased to about 26½ percent. Thus the rate of tax under the bills will continue to be graduated in accordance with alcoholic content.

Your committee deemed it appropriate to make only a moderate increase in the case of the taxes on wines because of the importance of wines to the grape-growing industry. Between one-third and one-half of the total grape crop is customarily absorbed by wine. The demand for wine, therefore, also has an important effect on the prices which can be obtained by producers for raisins and fresh grapes, the two other important uses of grapes. Moreover, in view of the fact that it has been necessary for the Department of Agriculture at times since the end of World War II to support the price of raisins, it would appear inappropriate for your committee to make a substantial increase in the tax on wine which might have the effect of requiring further price supports. In addition it should be pointed out that wine consumption in the United States relative to consumption of other forms of alcoholic beverages is relatively low when compared to relationships generally established abroad. Moreover, the wine industry is one of the few industries which has been classified under the excess-profits tax as a depressed industry.

The effect of both your committee's bill and the House bill in the case of the taxes on wines is to raise revenues by an estimated \$8 million in a year in which the increase is fully effective.

4. Occupational taxes on dealers in liquor

Retail dealers in liquor other than those dealing exclusively in wine and beer are required under section 3250 of the code to pay a special annual occupational tax of \$27.50. Section 451 of the bill raises this occupational tax to \$50 a year. This is the same increase as is made by the House bill. Under present law the low tax has made it impractical from an administrative standpoint for the Bureau of Internal Revenue to verify the names and addresses of persons paying this special occupational tax. Attention has been called to many cases where incorrect names and addresses have been given with the probable intention of avoiding detection by State and local liquor authorities. Your committee believes it feasible for the Bureau of Internal Revenue to establish a verification system for all payees of this tax and it is the intention of your committee that the Bureau of Internal Revenue do so. Severe penalties for fraudulent returns are already provided under existing law. It is estimated that this provision will increase collections by \$7 million in a full year of operation.

Section 451 of your committee's bill also increases the occupational taxes on wholesale dealers in liquors and wholesale dealers in malt liquors. Section 3250 (a) (1) of the code imposes a special occupational tax of \$110 on wholesale dealers in liquors. This includes wholesale dealers in wines, as well as wholesale dealers in distilled spirits. Both your committee's bill and the House bill raises this tax to \$200. Section 3250 (d) of the code provides an occupational tax of \$55 for wholesale dealers in malt liquor. This tax is raised to \$100 by both bills. It is estimated that in a full year of operation the increase in these occupational taxes on wholesale dealers in liquors and malt liquors will raise revenues by \$1 million annually.

B. TOBACCO PRODUCTS

The changes made in the excise taxes on tobacco are distributed between small ("standard" and "king" sized) cigarettes and snuff, fine-cut, scrap, plug and twist chewing tobacco as follows:

[In millions]

	House bill	Committee bill
Small cigarettes ("standard" and "king" sized).....	\$177	\$177
Snuff and fine-cut, scrap, plug, and twist chewing tobacco.....	0	—10
Total.....	177	167

No changes are made in the present taxes on cigars and smoking tobacco.

1. *Small cigarettes*

In the case of small cigarettes, section 421 of your committee's bill increases the tax provided by section 2000 of the code from \$3.50 per thousand to \$4 per thousand. This is the same increase as is made by the House bill. In effect, this raises the tax on the ordinary package of 20 cigarettes from 7 cents to 8 cents. The present tax on cigarettes represents about 34 percent of the retail price including tax. The increase would raise this to about 37 percent.

The increase provided by both bills is as large as the combined increases made in this tax during and just before World War II. In view of the importance of the sales of tobacco to a large number of farmers in the country, this is as large an increase in this tax as your committee believes it is appropriate to make.

It is estimated that in a full year of operation this action will increase revenues by \$177 million a year.

2. *Snuff and fine-cut, scrap, plug, and twist chewing tobacco*

In the case of snuff and fine-cut, scrap, plug, and twist chewing tobacco, section 423 of your committee's bill reduces the tax from 18 cents per pound to 10 cents per pound. In the case of smoking tobacco the tax remains at 18 cents per pound. No such reduction was provided in the House bill. Your committee believes that this reduction is desirable because the declining demand for snuff and chewing tobacco has worked hardships on the manufacturers, and also on the farmers raising these particular types of tobacco. Moreover, these tobacco products are used primarily by the lower income groups and, therefore, the present tax is believed to be highly regressive.

It is estimated that in a full year of operation this action by your committee will decrease revenues by about \$10 million a year.

C. MANUFACTURERS' EXCISES

The additional revenue it is estimated will be derived from manufacturers' excises is distributed among the various excises as follows:

[In millions]

	House bill	Committee bill
Gasoline, and diesel fuel used by highway vehicles.....	\$220	\$210
Passenger cars, motorcycles and house trailers.....	196	189
Automobile trucks, busses, and truck trailers.....	61	61
Automotive parts and accessories.....	56	56
Tires on toys, etc.....	-1	-1
Electric, gas, and oil appliances.....	18	69
Navigation receivers sold to the U. S. Government.....	None	None
Refrigeration equipment.....	0	Negligible
Sporting goods.....	Negligible	Negligible
Photographic apparatus and film.....	-23	-5
Electrical energy.....	-104	-104
Fountain pens, ball-point pens, and mechanical pencils.....	24	12
Cigarette, cigar, and pipe lighters.....	0	1
Total.....	447	488

1. Gasoline and diesel fuel

Section 479 of the bill provides for a one-half cent increase in the gasoline tax, raising the Federal gasoline tax, provided by section 3412 of the code, from 1½ to 2 cents per gallon. This is the same increase as is provided by the House bill. Since the tax on gasoline is a specific and not an ad valorem tax, the percentage relationship of the tax to the retail price will vary with the variation in the price of gasoline. Thus, although in 1950 the tax was 6 percent of the retail price, including tax, in 1940 it was 8½ percent of the retail price. This is accounted for by the rise in the average price of gasoline in the past 10 years. The average price in 1939, for example, was 13.3 cents per gallon before the State tax, while in 1950 the average price was 20 cents per gallon. The action by your committee, which would result in a tax equal to about 8 percent of the retail price of gasoline including tax, does not quite restore the relationship existing in 1940.

The consumption of gasoline has shown one of the most consistent patterns of increase over the last few decades. The production of gasoline in 1940, for example, amounted to 615 million barrels and in 1950 this had increased to 1,024 million barrels. The domestic demand for gasoline has grown at an average annual rate of 7 percent since the end of War War II and appears to be increasing somewhat more rapidly now. The 1950 demand for gasoline was 9 percent in excess of the demand for 1949 and the Bureau of Mines has estimated that the demand in 1951 will be 9½ percent in excess of the demand in 1950. This substantial increase can, of course, in large part be accounted for by the increased numbers of passenger automobiles and trucks on the road. For example, registration of automobiles and trucks in the period 1945 to 1950 increased over 50 percent. Under these conditions it appears probable that an increase in the gasoline tax of the size provided by this bill can readily be passed on to the consumers of gasoline. This appears especially likely in view of the fact that, in the case of gasoline, demand does not change much with variations in price.

Despite this strong demand, the increase in the gasoline tax is limited to a half cent per gallon. Payments for gasoline represent costs of doing business in the case of gasoline consumed by trucks and in the case of an important segment of the gasoline used in passenger cars. In addition to this, your committee recognizes that the gasoline tax represents an important source of revenue to the States. The usual State tax ranges from 4 to 5 cents per gallon but eight States have a 7 cents per gallon tax and one has a tax of 9 cents per gallon. Too substantial an increase in the gasoline tax by the Federal Government might affect the use of this revenue source by the States.

The House bill adds a new section 2450 to the code imposing a tax of 2 cents per gallon on diesel fuel for diesel-powered highway vehicles. The tax is imposed on the retailer selling the diesel fuel for highway use and also on persons using the diesel fuel in highway vehicles if no tax was collected from the retailer.

Your committee, although recognizing that the failure to tax diesel fuel used on highways on the same basis as gasoline is discriminatory against vehicles powered by gasoline, does not include this provision in its bill. As provided by the House bill, the tax would be very difficult to collect. The retailer selling diesel fuel for highway use also sells the same fuel for fuel-oil furnaces in homes. Moreover, experience with this tax at the State level has also indicated a considerable amount of evasion where the tax is collected from the persons using the fuel oil in the highway vehicles, the second alternative collection method provided by the House bill. Because of these difficulties in the administration of this tax, your committee believes that it is desirable to postpone the consideration of this problem until it is possible to give it further study.

As a result of not imposing this tax on diesel fuel, the estimated revenue which it is anticipated will be collected in a full year of operation from the gasoline tax is \$210 million instead of the \$220 million estimated for the House bill.

2. Passenger cars and motorcycles

Section 471 of the bill increases the tax, provided by section 3403 of the code, on passenger cars and motorcycles from 7 to 10 percent of the manufacturers' price. However, your committee's bill removes the tax on house trailers. The increase provided for passenger automobiles and motorcycles is the same as that provided by the House bill, but the House bill left the tax at 7 percent in the case of house trailers instead of removing it. The present tax on passenger cars on the average represents 5 percent of the retail price, including tax. The increase provided by this bill will raise this to somewhat over 7 percent.

The demand for new passenger cars has continued at a very high level since the end of World War II not only because of the backlog of demand from the war period when new cars were not available, but also because high income levels have made the purchase of cars possible to many persons not formerly able to buy them. The unit output in 1950, for example, represented 232 percent of the output in 1939. Moreover, the value of the 1950 output was \$8.8 billion, or about five times the value of the output in 1939.

Despite the recent temporary decline in the sales of passenger cars, it appears that the demand for them in the year 1951 as a whole will be

at a very high level. However, it appears probable that the supply of automobiles available will be cut because of their substantial use of critical materials. Twenty percent of the total steel output, for example, has been going to the production of automobiles. Steel allocations for automobiles were reduced in the second and third quarters of 1951 and at the present time shortages of copper and stainless steel are affecting automobile production. The output of passenger cars in calendar 1951 will probably be approximately the 1949 level which was slightly over 5 million, and is expected to be substantially above the annual production in the 10 years prior to World War II.

Under these conditions it appears probable that an increase in tax of the size proposed by your committee can readily be passed forward to the consumer without any cut in the effective demand for new passenger cars. Since the tax is not imposed on second-hand cars, which in large measure represent the purchases made by the lower-income groups, it appears probable that the tax increase made by the bill will not bear heavily on these groups.

However, your committee recognizes that cars represent a necessity to a large segment of the population under present conditions and, therefore, deemed it inappropriate to increase the rate above 10 percent on the manufacturer's price, the rate applying in the case of most manufacturers' excises. Moreover, the purchase of a car represents a larger outlay on the part of the consumer than is true in the case of most other durable consumption items, with the result that the amount of the tax payment in these cases is larger than in the purchase of other durable goods and, therefore, likely to be considered more burdensome.

Your committee's bill removes the tax on house trailers because it recognizes that, during periods of emergency such as the present, the bulk of these house trailers are used for housing by defense workers, military personnel and others rather than as a means of transportation.

It is estimated that in a full year of operation this provision of the bill will increase revenues by \$189 million.

3. Automobile trucks, busses, and truck trailers

Section 471 of the bill also increases the tax on automobile trucks, busses, and truck trailers, provided by section 3403 of the code, from 5 to 8 percent of the manufacturer's price. This increase is the same as that provided by the House bill.

Since, as previously noted, the tax on passenger cars is increased to 10 percent, this maintains the traditionally lower tax for the types of automotive transportation especially designed for business. Your committee believes that it is desirable to retain a lower tax on trucks and related types of automotive transportation because it recognizes that these represent operating costs to businesses. A high rate of tax in such cases would be likely to be passed on in the price of commodities generally. However, it is believed that the moderate increase provided by the bill is desirable on much the same grounds as the increase provided in the case of passenger automobiles: namely, the anticipated high demand for this type of automotive transportation coupled with the likelihood of a curtailment in the supply available.

It is estimated that in a full year of operation this provision will increase revenues by \$61 million.

4. Automotive parts and accessories

Section 471 of the bill also increases the tax on automotive parts and accessories, provided by section 3403 of the code, from 5 to 8 percent of the manufacturer's price. This increase is the same as that provided by the House bill. Since the tax on automotive trucks, busses, and truck trailers likewise is raised to 8 percent, this will retain a uniform rate of tax for these two types of items, as is provided by present law. Even though new cars are taxed at 10 percent, the parts and accessories for them, when not purchased with the car, are included in the base of this 8-percent tax, because in many cases the parts for passenger cars and trucks are interchangeable. Moreover, it is also believed desirable to impose a lower rate of tax on parts and accessories for passenger cars than on the new cars themselves, because the bulk of the parts and accessories are purchased by owners of old or second-hand cars who are largely in the lower-income groups.

With respect to reconditioned or rebuilt parts, where such sales are subject to the parts and accessories tax under present law, section 471 of both your committee's bill and section 481 of the House bill provide an amendment which excludes from the tax base the fair market value of any like part traded in for a reconditioned or rebuilt part. Where an automotive part is not performing satisfactorily and the car owner cannot afford a new one, he has the choice of either having the old one reconditioned, usually in a local shop, or of trading in the old part on a similar one which already has been reconditioned. The first of these alternatives, having the old part reconditioned, is not subject to the tax on automotive parts and accessories since there is no transfer of title. However, this alternative is not widely availed of because the car owner is not able to use his car during the reconditioning period. Under the second alternative, trading in the old part on a similar one which already has been reconditioned, there is a transfer of title and therefore such sales are subject to tax. The amount subject to tax in these cases is the charge to the car owner, plus the fair market value of the part he trades in. This not only presents the difficult administrative problem of determining the fair market value of the old part, but also is inequitable since trading in the old part is a substitute for repairing the car owner's old part. Only the value added in this case could be considered as new manufacturing, since in effect the car owner already owned the portion of the reconditioned part representing the value of the old part. To tax him on the fair market value of the part he turns in is to tax him on something he already owns. The exclusion of the value of the trade-in, as provided by your committee's amendment, removes this inequity. This also removes the difficult administrative problem of determining the fair market value of the old part, since the tax base will be limited to the cash payment required.

Section 471 of your committee's bill, like the House bill, also amends section 3443 of the code to provide for a credit or refund of the tax on automotive parts and accessories where the parts or accessories are used or resold for the repair or replacement of farm equipment parts. However, this crediting or refunding device is not made available in the case of spark plugs, storage batteries, leaf springs, coils, timers, and tire chains.

An exemption is already provided by existing regulations for automotive parts and accessories sold to manufacturers for use on new

farm equipment with the exception of the items specifically listed above. The provision, therefore, merely applies the same policy to sales of repair or replacement parts, making use, in this case, of a crediting or refunding procedure. This appears desirable because it is not believed that Congress ever intended to subject farm tractors and equipment generally to this tax. With the exception of the specific items noted above on which the tax will still apply, it is believed that these credits or refunds will present no serious administrative problems.

It is estimated that the rate increase in the tax on automotive parts and accessories, taken together with the changes in the base of the tax, will increase revenues in a full year of operation by \$56 million.

5. *Tires on toys, etc.*

Section 471 of the bill also makes a minor revision in the 5-cent-per-pound manufacturers' tax on tires. Section 3400 of the code is amended to exclude from this tax tires which are not more than 20 inches in diameter and one and three-fourths of an inch in cross section if the tires are of all-rubber construction. The bill also excludes tires with internal wire fasteners, irrespective of size. This exemption is the same as that provided by the House bill.

Under present law, the tax on tires is applicable to all tires regardless of the use for which they are intended. Consequently, it applies in the case of tires for baby buggies, lawn mowers, children's tricycles, scooters, coaster wagons, etc. Since the manufacturer's price on tires of these types is generally low, the 5-cent-per-pound tire tax may account for as much as 25 to 50 percent of the price of the tires. Thus, the tax on the tires of these toys, etc., appears unreasonably high in terms of ad valorem rates. Moreover, it is not believed that it is a primary purpose of the tax on tires to collect revenue with respect to articles of these types.

It is estimated that in a full year of operation this change will result in a revenue loss of approximately \$1 million a year.

6. *Electric, gas, and oil appliances*

Section 475 of the bill expands the base of the 10 percent manufacturers' tax on electric, gas, and oil appliances provided by section 3406 of the code to include the following household types of items not subject to tax under present law:

- | | |
|-------------------------------------|---|
| 1. Electric vacuum cleaners. | 10. Electric floor polishers and waxers. |
| 2. Electric washing machines. | 11. Electric food choppers and grinders. |
| 3. Electric garbage disposal units. | 12. Electric hedge trimmers. |
| 4. Exhaust blowers. | 13. Electric ice cream freezers. |
| 5. Electric belt-driven fans. | 14. Electric mangles. |
| 6. Electric or gas clothes driers. | 15. Electric motion- or still-picture projectors. |
| 6. Electric door-chimes. | 16. Electric pants pressers. |
| 8. Electric dehumidifiers. | 17. Power lawn mowers. |
| 9. Electric dishwashers. | 18. Electric sheets and spreads. |

It also deletes electric heating pads, industrial-type direct motor-driven fans and electric heaters of the blower type from the items presently subject to tax. The House bill did not impose a tax on electric vacuum cleaners, electric washing machines, or electric garbage disposal units, but did impose a tax on electric shavers. The House bill also did not delete industrial-type direct motor-driven fans from the base of the present tax.

Of the items added to the base of the tax, by far the most important in terms of revenue are the electric washing machines and vacuum cleaners. Of the remaining items, power lawnmowers, electric dishwashers, and electric and gas clothes driers are the most important revenue producers.

The tax under present law applies to—

1. Electric, gas, and oil water heaters.
2. Electric, gas, and oil appliances for cooking or warming food or beverages for consumption on the premises.
3. Electric direct motor-driven fans and air circulators.
4. Electric flatirons.
5. Electric air heaters (but not furnaces).
6. Electric immersion heaters.
7. Electric heating pads and blankets.
8. Electric mixers, whippers, and juicers.

The items added to the base of this tax by your committee are directly or indirectly competitive with many of the items now in the base of the tax. An example of direct competition exists in the case of the household-type direct motor-driven fans subject to tax under present law and the household-type belt-driven fans which are presently free of tax. Vacuum cleaners, washing machines, and garbage disposal units were added by your committee because these are electrical appliances of wide usage which are at least indirectly competitive with a large number of the items already subject to the appliance tax or made so by the House bill. However, your committee did not deem it appropriate to raise the rate of this tax in view of the fact that a number of items in its base are generally considered to be necessities.

As in the case of passenger cars, it is anticipated that with the current high income levels the demand for electric appliances will remain strong, while the supply available is likely to decline somewhat as a result of the shift of critical materials from civilian products to products needed for the defense effort. The steel used in electric appliances, for example, has been cut back by 30 percent for the third quarter of 1951. In view of these factors, it appears unlikely that expanding the base of this tax to include the new items listed above will have any appreciable effect upon the sales of the electric appliances industry.

From the standpoint of the consumer also, this tax does not appear to be very burdensome. The data available indicate that this tax tends to bear less heavily on the lower-income groups than most other excise taxes now imposed. Moreover, this 10-percent manufacturers' tax, when expressed as a percentage of the retail price of the electric, gas, and oil appliances, including tax, represents only about a 6-percent tax.

Electric heating pads were removed from the base of the tax on electric, gas, and oil appliances because these pads are extensively used for medical purposes, and your committee does not believe that such items are proper subjects for excise taxes. Electric shavers, although included in the House bill, are excluded from your committee's bill because they are competitive with safety razors and blades and straight razors which are not subject to excise tax. Industrial-type direct motor-driven fans are excluded from the base of the tax both because they are business cost items and because they are competitive with industrial-type belt-driven fans which are not subject to excise tax.

Under present law where the manufacturer sells an electric, gas, or oil appliance at retail, on consignment, or at less than the fair market price, the Commissioner is required to determine the competitive fair market price. In the case of one of the new items added to the base of this tax, vacuum cleaners, another type of selling arrangement is followed whereby the manufacturer negotiates the sale on behalf of the retailer. Since the price charged in such cases does not represent a fair price for purposes of a tax base, the Commissioner, under your committee's bill, is required to determine such a price where these selling arrangements are used in the same manner as where the manufacturer sells at retail or on a consignment basis.

It is estimated that in a full year of operation the new items added to the base of the electric-, gas-, and oil-appliances tax will increase revenues by about \$71 million a year, while the exclusion of electric heating pads, industrial-type direct motor-driven fans and electric heaters of the blower type will reduce revenues by \$2 million annually.

7. Navigation receivers sold to the United States Government

Section 472 of the bill makes a minor revision in the base of the 10-percent manufacturers' excise tax on radio receiving sets, television receiving sets, etc., imposed by section 3404 of the code. "A communication, detection, or navigation receiver of the type used in commercial, military, or marine installations," is exempted from this tax under your committee's bill if sold to the United States for its exclusive use. This change is the same as that provided by the House bill. This exemption is granted to remove compliance problems. No revenue is, of course, involved, since the tax in these cases today is ultimately paid by the United States Government.

8. Refrigeration equipment

Under present law, a 10-percent manufacturers' tax is imposed on household type mechanical refrigerators, quick-freeze units, and refrigerating and freezing apparatus. In the case of refrigerating and freezing apparatus, present law provides that the tax does not apply in the case of sales of refrigerator components to manufacturers of refrigerators, quick-freeze units or refrigerating or cooling apparatus. This latter provision prevents the double imposition of the refrigerator tax where sales are made from one manufacturer to another. However, in many cases refrigerating apparatus is sold first to a wholesaler or jobber, who in turn sells the apparatus to a manufacturer. Under present law, a double imposition of the refrigerator tax occurs in such cases unless the wholesaler is specifically registered with the Bureau of Internal Revenue as a vendee of articles for resale to manufacturers. Moreover, registration is limited to wholesalers who resell to manufacturers of taxable end products. Your committee believes that the present tax treatment discriminates against wholesalers and that this tax interferes with the normal channels of distribution. For these reasons, your committee provides in section 473 of the bill that, under regulations prescribed by the Secretary, the tax on refrigerating and freezing apparatus is not to apply to sales of refrigerator components to wholesalers or jobbers where the components are intended for resale to manufacturers or producers of refrigeration and freezing equipment, if the components are actually resold in this manner. This is accomplished by amending section 3405 (b) of the code. No similar provision is contained in the House bill.

It is estimated that the revenue effect of this provision of your committee's bill will be negligible.

9. Sporting goods

Section 474 of the bill makes two changes in the 10-percent manufacturers' tax imposed on sporting goods by section 3406 of the code.

Under present law this tax covers virtually all types of sporting equipment although toy or children-sized items are exempted from this tax in the case of certain types of sporting equipment. Also, a number of articles subject to the sporting goods tax are used largely as a part of school and college athletic programs. Sale for use in the public schools are exempt (as purchases by subdivisions of State governments) so that the net revenue from taxing these articles is quite small, although the administration of the exemption imposes a considerable burden on the sporting goods dealers. Moreover, the nonexempt sales of many of the taxed articles are made largely to private schools, which has been objected to on the grounds that it is discriminatory treatment. For these reasons, the first action of your committee with respect to the sporting goods tax is to remove from the application of the tax specific types of articles which are used predominantly for school sports and by children. This is the same as was provided in the case of the House bill with the following exceptions: your committee's bill exempts baseballs and baseball equipment while the House bill taxed them, and your committee's bill taxes cricket balls and bats, lacrosse equipment, skates, and snow toboggans and sleds while the House bill exempts these items.

The second action of your committee is to raise the rate of tax from 10 percent to 15 percent of the manufacturer's price with respect to the items remaining in the tax base, except fishing equipment. In this case your committee left the rate at 10 percent since the receipts from this source are not available for general expenditures. The rate increase from 10 to 15 percent provided by your committee is the same as that provided by the House bill with the exception that the House bill also raised the tax on fishing equipment to 15 percent. Under present law the tax is about 6 percent of the retail price including tax and under both bills will be between 10 percent and 11 percent of the retail price.

It is estimated that these two actions taken together will not have any effect on revenue collections, since it is believed that the additional revenue which will be derived from the higher rate of tax on the items remaining in the base will be approximately equal to the revenue lost with respect to the items which are excluded from the base.

10. Photographic apparatus and film

Section 3406 of the code imposes a 25-percent tax on sales at the manufacturers' level of photographic apparatus, which is defined as including cameras weighing 4 pounds or less, lenses, photographic apparatus and equipment, and any apparatus or equipment designed especially for photographic purposes. A 15-percent manufacturers' tax is also imposed on photographic films (except X-ray films), photographic plates, and sensitized paper. Under present law, the tax on film is about 9 percent, and tax on equipment is about 13 percent, of the retail price.

Section 476 of your committee's bill reduces the tax on photographic apparatus from 25 to 15 percent of the manufacturer's price. No change is made in the 15-percent tax now applying to film or in the items included in the bases of either of these taxes. Thus, under your committee's bill, the tax on film and equipment will be between about 8 and 9 percent of the retail price of these items.

The House bill decreases the 25-percent tax on photographic apparatus to 20 percent and increases the 15-percent tax on film to 20 percent. The House bill also revises the bases of these taxes so that they are imposed only on film, cameras, and lenses which, insofar as is administratively possible, do not represent a cost of doing business. In the case of the House bill, the tax on both film and equipment would represent a tax of between 11 and 12 percent of the retail price.

Although your committee's bill provides a 15 percent rate of tax for film and photographic equipment rather than the 20 percent provided by the House bill, the revenue loss under your committee's bill is much smaller because the business cost items are not deleted from the bases of these taxes. Your committee believes that in view of present revenue requirements it is not desirable to reduce the revenue obtained from the photographic taxes by as much as would be necessary in order to remove all of these business cost items from tax.

It is estimated that the combined effect of your committee's action with respect to these taxes is to reduce revenues in a full year of operation by \$5 million. The changes provided by the House bill would reduce revenues by \$23 million annually.

Your committee's bill also makes an additional minor amendment to the photographic tax providing that the tax on color positive print film is not to be in excess of the tax on black and white positive print film. This change is made to eliminate a discriminatory competitive problem. In some cases under present law colored film is subject to the photographic tax because the coloring is added to the film by the photographic manufacturer. This results in a relatively large tax base. In other cases the coloring is added to the film after it leaves the hands of the photographic manufacturer with the result that the tax base in this case is relatively small. Your committee's bill removes this discrimination by placing no higher tax on color film than on black and white film.

In the case of photoflash bulbs, the House bill provides floor stock refunds. That is, wholesalers, retailers and others having inventories of photoflash bulbs intended for sale on the date the revision in the tax becomes effective would be credited, or would receive a refund, with respect to the tax paid on their inventories of photoflash bulbs. No such floor stock refund is provided in the case of your committee's bill. Under the House bill, the tax on these photoflash bulbs was decreased from 25 percent to zero. Under your committee's bill, the tax is decreased from 25 to 15 percent. Your committee believes that this smaller decrease in tax substantially decreases the hardship which would arise in the absence of a floor stock refund on these photoflash bulbs. This, combined with the administrative problems involved in making floor stock refunds, accounts for the absence of this provision in your committee's bill.

11. Electrical energy

Section 3411 of the code imposes upon vendors of electrical energy sold to domestic or commercial consumers a tax equal to $3\frac{1}{2}$ percent of the price charged. Section 478 of the bill repeals this tax. This tax is also repealed by the House bill.

A tax on electrical energy is not believed to be a desirable part of the excise-tax revenue system for several reasons. First, the tax is believed to be one of the more burdensome of the excise taxes with respect to the lower-income groups, since amounts paid by consumers for electrical energy tend to vary relatively little with variations in income. Thus, the electrical-energy tax paid by the higher-income groups does not generally represent as large a percentage of their income as is true of the lower-income groups. Second, power companies have found it difficult and burdensome to determine which customers are domestic or commercial consumers, and therefore taxable, and which are industrial consumers, and therefore exempt. This has presented a particularly difficult problem in the case of businesses engaged in both commercial and industrial activities. Third, the tax under existing law does not apply to publicly owned electric power plants or to systems owned and operated by cooperative or nonprofit corporations engaged in rural electrification. Thus, since there is general agreement that this tax is passed on to the consumers, the present tax treatment has the effect of imposing a tax on persons purchasing electrical energy from private utilities, while imposing no tax on persons purchasing electrical energy from municipalities, the Federal Government, or REA cooperatives. To impose the tax on some consumers and not on others is believed discriminatory, and since your committee believed that it was not desirable to extend this tax to municipalities, the Federal Government, or REA cooperatives, the bill repeals this tax.

It is estimated that in a full year of operation the repeal of this $3\frac{1}{2}$ -percent electrical-energy tax will reduce revenues by \$104 million annually.

12. Fountain pens, ball-point pens, and mechanical pencils

Section 477 of your committee's bill adds a new section 3408 to the code imposing a 10-percent manufacturers' tax on fountain pens, ball-point pens, and mechanical pencils. The House bill also added this tax but provided a 20-percent rate. At the present time some pens and pencils are subject to the 20-percent retail tax on jewelry and related items where they have nonessential parts which are ornamented with precious metals. To prevent double taxation, these pens and pencils are not included in the base of the new manufacturers' tax.

Consideration was given to extending the tax on jewelry and related items to all fountain pens, ball-point pens, and mechanical pencils, but this was discarded because the inexpensive types of such items are frequently sold in stores which are not accustomed to the collection of the jewelry tax. Moreover, your committee lowered the rate of tax provided by the House bill to 10 percent since an important segment of the cheaper pens and pencils are purchased by school children.

It is estimated that in a full year of operation this action by your committee will increase revenues by \$12 million annually. The House provision would have increased revenues by \$24 million a year.

13. *Cigarettes, cigars, and pipe lighters*

Section 477 of your committee's bill imposes a manufacturer's tax on all mechanical lighters for cigarettes, cigars, and pipes which are not now taxed as jewelry. The manufacturer's tax on mechanical lighters is imposed at a 10-percent rate, the general rate at which most manufacturers' taxes are imposed. The House bill provided a 20-percent tax at the retail level for these mechanical lighters. In view of the large number of retail outlets selling mechanical lighters, your committee believes that it is more desirable to impose this tax at the manufacturer's level.

It is estimated that in a full year of operation this action by your committee's bill will increase revenues by nearly \$1 million a year. It is estimated that the provision in the House bill would increase revenues by about \$2 million in a full year of operation.

D. RETAIL EXCISES

The revenue effect of the bill in a full year of operation with respect to retail taxes is as follows:

[In millions]

	House bill	Committee bill
Cigarette, cigar, and pipe lighters.....	\$2	\$0
Toilet preparations.....	-7	-7
Total.....	-5	-7

1. *Cigarette, cigar, and pipe lighters*

The House bill extends the 20-percent tax on jewelry and related items to cover all mechanical lighters for cigarettes, cigars, and pipes. Your committee's bill applies a manufacturers' tax to all mechanical lighters for cigarettes, cigars, and pipes not now taxed as jewelry and for that reason the discussion of the tax is included above with the manufacturers' excises.

2. *Toilet preparations*

Section 431 of your committee's bill makes two changes in the 20 percent retail tax on toilet preparations imposed by section 2402 of the code. These are the same changes as are made by the House bill.

The first of these changes exempts from this tax baby oils, powders, lotions, and other toilet articles unless they are advertised or sold as being usable by adults. Your committee believes that these items fall within the category of necessities and should not be subject to tax.

The second change exempts toilet preparations purchased by barber shops and beauty parlors for use in these establishments. Under present law these items are subject to tax at the time they are purchased by the barber shop or beauty parlor. However, toilet preparations purchased by a barber shop or beauty parlor for resale to customers are not taxable until sold to the ultimate user. To distinguish the purchases for resale made by the barber shop or beauty parlor from the purchases for their own use, the establishment is required to file a certificate, if no tax is paid at the time of purchase, indicating that the items will not be used in the establishment. Such certificates

are not presently required in the case of tax-paid purchases for use in the establishment. This difference in treatment has resulted in considerable confusion among the barber shop and beauty parlor operators. Moreover, the taxing of the items used in the establishment itself represents the taxing of business cost items. The bill eliminates these problems by repealing the tax on toilet preparations purchased by barber shops, beauty parlors, and similar establishments if intended for use in such establishments. It is also intended by the adoption of this amendment to eliminate the requirement of exemption certificates in connection with sales of cosmetics to barber-shops and beauty parlors either for professional use therein or for resale once the businesses have established their nontaxable status as barber shops or beauty parlors.

It is estimated that in a full year of operation the exclusions from the base of the tax on toilet preparations made by this bill will reduce revenues by \$7 million annually.

E. TRANSPORTATION AND COMMUNICATION EXCISES

The revenue effect of the House bill and your committee's bill in a full year of operation on the transportation and communication excises is distributed among the various taxes as follows:

[In millions]

	House bill	Committee bill
Domestic telegraph, cable, and radio messages.....	-\$8	-\$14
Long-distance telephone charges.....	0	Negligible
Transportation of persons.....	Negligible	Negligible
Transportation of property.....	3	Negligible
Total.....	-5	-14

1. Domestic telegraph, cable, and radio messages

Sections 1650 and 3465 of the code impose a 25-percent tax on amounts paid for domestic telegraph, cable, or radio dispatches of messages. Section 481 of your committee's bill reduces the tax on domestic telegraph, cable, or radio messages to 15 percent, instead of to the 20 percent provided by the House bill.

Since World War II, telegraph service in the United States generally has been carried on at a deficit. In the forepart of this year, the service was operated at a profit, but wage adjustments which have recently been made have again placed telegraph service in a deficit position. By reducing this tax on telegraph service, your committee anticipates that it will be possible to decrease the amount paid for telegraph messages, and that as a result the volume of business done will be increased and the profit position of the industry improved. Telegraph service not only is essential to the civilian economy but also is essential to national security. The 15-percent rate of tax provided by your committee's bill for domestic telegraph, cable, and radio dispatches is the same rate of tax as now applies to the major portion of the business done by those corporations which were the chief competitors of corporations rendering telegraph service.

In a full year of operation it is anticipated that reducing the tax on domestic telegraph, cable, and radio messages from 25 to

15 percent of the charge will reduce revenues by \$14 million, as contrasted to a loss of \$8 million if the rate were reduced to only 20 percent as provided by the House bill. In the long run, however, it is believed that much of the loss may be offset by an increased volume of telegraph business.

2. Long-distance telephone calls to or from members of the Armed Forces in combat areas

Section 482 of your committee's bill provides that the 25-percent tax on long-distance telephone calls is not to apply to calls from combat zones initiated by members of the Armed Forces. It has been brought to your committee's attention that the tax in these cases frequently comprises a very sizable amount. It believes that this tax should be removed in view of the morale significance of such communications. The House bill contains no similar provision.

The revenue loss from this amendment will be negligible.

3. Transportation of persons

Your committee's bill makes two changes in the 15-percent tax on amounts paid for the transportation of persons provided by sections 1650 and 3469 of the code. One of these exempts certain fishing trips from the tax on the transportation of persons. This provision is the same as that contained in the House bill. Under present law amounts paid for transportation in boats where the transportation takes place for the sole purpose of fishing from the boat have been held to be taxable under these sections. In the case of fishing-boat activities, it is customary for the operators of such boats to make a lump-sum charge for a fishing trip, including not only the charge for the transportation, but also charges for such services as the use of fishing tackle, a supply of bait, food served on the boat, etc. The necessity of breaking down this lump-sum charge to determine the proportion of the total which represents the taxable charge for transportation has been a difficult problem both for the fishing-boat operators and the Bureau of Internal Revenue. Moreover, although fishing trips are technically defined as transportation, they are not generally considered so by laymen. As a result the tax on fishing trips has brought numerous complaints from sportsmen and has also created troublesome collection and compliance problems for the Government. Section 483 of the bill exempts from the tax on the transportation of persons amounts paid for transportation by boat for the purpose of fishing from such boat.

The second change made by your committee in the tax on the transportation of persons excludes from the application of the tax amounts paid in the case of certain types of transportation by vessels. This provision is not contained in the House bill. In 1947 the tax on the transportation of persons was amended to exclude, from the application of the tax, amounts paid for transportation outside of the northern portion of the Western Hemisphere. However, amounts paid for transportation partially within United States, Canada or Mexico, and partially outside of the northern portion of the Western Hemisphere, were continued under the tax with respect to that part of the transportation "which is from any port or station within the United States, Canada, or Mexico to any other port or station within the United States, Canada, or Mexico." This has tended to discriminate against certain American, Canadian, and Mexican ports where vessels, if it were not for this tax, would make intermediate stops for servicing

and refueling, but presently do not do so because this would increase the portion of the travel charge on which their passengers would have to pay tax. For example, under present law a vessel leaving New York for London is unlikely to stop at Boston for servicing or refueling, since to do so would subject a part of the tickets purchased by their passengers to the transportation tax. For that reason section 484 of your committee's bill provides that in the case of transportation by vessels making intermediate stops at ports in United States, Canada, or Mexico on voyages between United States and a port outside of the northern portion of the Western Hemisphere, the charge for the transportation between the intermediate stop and the port in the United States, where the transportation begins or ends, will not be subject to the transportation tax, if the vessels are not authorized to discharge or take on passengers at the intermediate stops.

It is believed that the revenue loss from these changes in the tax on the transportation of persons will be negligible.

4. *Transportation of property*

Under present law section 3475 of the code imposes a 3-percent tax on amounts paid for the transportation of property (in the case of coal the tax is 4 cents per short ton). In the case of building contractors, hauling dirt, rocks and other excavation material to some designated place the Bureau of Internal Revenue has held that a charge is being made for the transportation of property and, therefore, that such hauls are subject to tax. (Where excavation material has been removed without designating the place it is to be taken, no tax has been applied, since the Bureau has considered this to be merely the payment for removal of waste rather than a charge for the transportation of property.) However, since March 13, 1951, the Bureau of Internal Revenue has followed the rule laid down by the Third Circuit Court of Appeals in *Edward H. Ellis & Sons, Inc., v. United States* that where excavation material has been hauled from one point on a construction project to another point on the same project, no transportation tax is due. However, tax still is imposed where the excavation material is taken off the construction project to some designated place, even though such place is adjacent to, or near the construction project. Your committee believes that the imposition of the tax in such cases, while no tax is imposed if the excavation material is not removed from the site of the construction project, represents too fine a line of distinction to be drawn. For that reason section 485 of your committee's bill exempts from this tax charges made for the use of motor vehicles by contractors for the movement of earth, rock, or other excavated material from a construction project to an adjacent area. No such exemption is provided by the House bill.

Your committee did not, however, accept the change made in the tax on the transportation of property by the House bill. The House bill extends the 3-percent tax on the transportation of property to the "fair charge" where shippers are transporting their own oil and in other cases where the amount paid for the transportation of oil is less than a fair charge. The tax on the transportation of property at present applies solely where property is transported for a charge. The House amendment would represent an exception to this rule, and your committee sees no more reason why a tax should be imposed where

shippers are transporting their own oil than where an individual is transporting his own property by truck. Since such a general extension of the tax on the transportation of property is not administratively feasible, your committee believes that it would be undesirable to select the isolated case of the transportation of oil by owners for the imposition of a tax.

It is believed that your committee's amendment with respect to the hauling of excavation material will have a negligible effect on revenues. However, since your committee's bill does not contain the provision of the House bill imposing the transportation tax where shippers are transporting their own oil, it is estimated that revenue from the tax on the transportation of property will be about \$3 million less per year than under the House bill, although there is no loss under your committee's bill as compared with present law.

F. EXCISES ON AMUSEMENTS OR RECREATION

It is estimated that the changes made in the excises on amusements and recreation under the House bill and under your committee's bill will result in a net loss in revenue in a full year of operation as follows:

[In millions]

	House bill	Committee bill
General admissions.....	-\$22	-\$18
Cabaret.....	Negligible	Negligible
Occupational tax on bowling alleys and billiard and pool tables.....	1	0
Total.....	-21	-18

1. General admissions

Sections 1650 and 1700 of the code impose a tax of 1 cent for each 5 cents or major fraction thereof charged for admission. Both the House bill and your committee's bill make two changes in the application of this tax.

Both your committee's bill and the House bill provide exemptions from the admissions tax where the proceeds inure to certain types of organizations. The exemptions provided by your committee's bill are, however, more restrictive. Section 402 of your committee's bill exempts from this tax admissions where all the proceeds inure to—

1. Churches or conventions of churches.
2. Educational organizations if such organizations normally maintain regular faculties and curricula and normally have regularly organized bodies of pupils or students in attendance at the places where their educational activities are regularly carried on.
3. Charitable organizations if such organizations are supported in whole or in part by funds contributed by the United States or any State or political subdivision thereof, or are primarily supported by contributions of the general public.
4. Societies or organizations conducted for the sole purpose of maintaining symphony orchestras or operas and receiving substantial support from voluntary contributions.
5. National Guard organizations.
6. Reserve officers' organizations.

7. Veterans' organizations.

8. Police or fire departments, pension or retirement funds set up for the benefit of their members and funds set up for the benefit of the heirs of members.

However, in the case of any of the above types of organizations, admissions are not exempt if they are to—

1. Motion-picture exhibitions.

2. Wrestling and boxing matches.

3. Carnivals, rodeos, or circuses where professionals participate for compensation.

4. Athletic contests unless the proceeds inure exclusively to the benefit of elementary or secondary schools.

Your committee's bill also exempts general admissions to nonprofit agriculture fairs, admissions to concerts conducted by nonprofit civic associations, admissions to swimming pools and other places providing facilities for physical exercise operated by a governmental unit, admissions to a home or garden which is temporarily opened to the general public as a part of a program conducted by a society or organization to permit the inspection of historical homes and gardens if no part of the proceeds inures to the benefit of any private person, and admissions to historical sites, houses, and shrines, and associated museums if operated by an organization for the preservation of such place and if no proceeds inure to any private person.

The exemptions as described above are similar to the exemptions provided in the House bill and the exemptions provided prior to the passage of the Revenue Act of 1941. However, they are more restrictive than either of these other two sets of exemptions in order to remove administrative problems, and also in an attempt to limit the benefit of the exemption to activities which it appears appropriate for the Government to encourage. Most of the activities to which these exemptions are applicable are a part of the legitimate functions of organizations or institutions which frequently are Government-supported or have been accorded tax exemption on their own income. Because it appears inconsistent to tax admissions to activities which are directly related to the legitimate functions of these organizations or institutions, your committee reinstates these exemptions, limited as provided above. However, your committee has attempted to continue the tax in those cases where the organizations are carrying on activities which are in direct competition with ordinary taxable businesses as is true, for example, in the case of motion picture exhibitions and certain types of carnivals, rodeos or circuses. It is estimated that these exemptions will result in a revenue loss of approximately \$12 million in a full year of operation. It is estimated that the exemptions provided by the House bill would decrease revenues by \$16 million.

The second change in the admissions tax, made by section 401 of this bill, deals with the amount paid for admission. This change is the same as that made by the House bill. Under present law a person admitted free or at reduced rates is required to pay the same amount of tax as a person who is charged the regular admission price, unless he is an employee, a municipal officer on official business, a child under 12, or (if admission is free) a hospitalized serviceman or veteran. Your committee believes that requiring a person to pay a tax based on a larger admission price than the amount actually charged him is contrary to the general principal of an ad valorem tax. More-

over, it does not appear that the administration of the tax is facilitated by taxing free admissions at the established price, and it represents a source of irritation to the public. Section 401 of your committee's bill, therefore, exempts free admissions from tax and bases the tax on amounts actually paid where persons are admitted at reduced rates.

It is estimated that the revenue loss from this change in the base on which the admissions tax is paid will amount to \$6 million in a full year of operation.

2. Cabarets

Section 404 of your committee's bill relates to the application of the 20-percent tax on cabarets to ballrooms and dancing halls. Some courts have construed the cabaret tax to apply in the case of ballrooms and dancing halls merely because it was possible to purchase incidental refreshments, services or merchandise in such places. Both your committee's bill and the House bill amend section 1700 (e) of the code to provide that the cabaret tax shall not apply in such cases. It is estimated that the revenue effect of this provision will be negligible.

3. Bowling alleys and billiard and pool tables

Section 3268 of the Internal Revenue Code imposes a special occupational tax on bowling alleys, billiard or pool tables of \$20 per year per alley or table. The House bill raises this tax from \$20 to \$25, but your committee's bill retains the tax of \$20 provided by existing law.

It is estimated that the House provision would have increased revenues by \$1 million annually. Your committee's action will not change the revenues derived from this source under existing law.

G. EXCISES ON GAMBLING

The additional revenue estimated to be derived from the taxes on gambling in a full year of operation is distributed among the various excises as follows:

[In millions]

	House bill	Committee bill
Occupational tax on coin-operated gaming devices.....	\$7	\$7
Tax on wagers.....	400	400
Occupational tax on the business of accepting wagers.....		
Total.....	407	407

With respect to the estimate of \$400 million from the two wagering taxes, since this is a field of taxation with which the Federal Government has had no previous experience and because there is uncertainty as to the actual amount of the tax base, the committee recognizes that it is difficult to estimate too closely the actual revenue which these new taxes will yield.

Section 461 of your committee's bill adds a new chapter 27A to the code which imposes a 10-percent excise tax upon wagers of certain types, principally those placed with bookmakers and lottery operators, and a \$50 per year occupational tax both upon persons engaged in accepting such wagers and upon persons who receive wagers for the

persons so engaged. This is the same as the provision contained in the House bill.

Commercialized gambling holds the unique position of being a multi-billion-dollar, Nation-wide business that has remained comparatively free from taxation by either State or Federal Governments. This relative immunity from taxation has persisted in spite of the fact that wagering has many characteristics which make it particularly suitable as a subject for taxation. Your committee is convinced that the continuance of this immunity is inconsistent with the present need for increased revenue, especially at a time when many consumer items of a seminecessity nature are being called upon to bear new or additional tax burdens.

The committee recognizes that, while Federal law imposes no general prohibition upon gambling, various forms of wagering are illegal under the laws of most States. As a result, proposals for a Federal tax on wagering are sometimes criticized as in effect sanctioning the carrying on of gambling activities in violation of such laws. The committee does not share this view. Since its inception, the Federal income tax has applied without distinction to income from illegal as well as legal sources, and it has never been generally supposed that such application carried with it any implied authorization to carry on illegal activities. Moreover, in the field of excise taxes the tax on coin-operated gambling devices has been applied without regard to whether or not the operation of a particular machine is in violation of State or local law. The present bill conforms to this pattern and imposes tax without regard to the legality or illegality of the particular wager.

The bill specifically provides that payment of either the tax on wagers or the occupational tax shall not serve to exempt any person from any penalties provided under either State or Federal law with respect to engaging in the taxed activities.

1. Tax on wagers

The wagering tax which both your committee's bill and the House bill imposes is placed upon wagers, without regard to the outcome of individual bets. This method of taxation is comparable to State taxation of pari-mutuel pools and is particularly appropriate with respect to wagering with bookmakers and in lotteries, especially of the type commonly known as the numbers game. The tax is limited (1) to wagers on sports events or contests placed with a person engaged in the business of accepting such wagers, (2) to wagers placed in a wagering pool which involves a sports event or contest, if the pool is conducted for profit, and (3) to wagers placed in a lottery conducted for profit. It is believed that wagering transactions of these types make up by far the largest proportion of the total gambling business.

While betting on horse races probably represents the largest single category of gambling activity, other than in lotteries, the tax will extend to wagers on any other sport, such as prizefights, basketball, baseball, or football, including sports exhibitions and trials. Moreover, the event wagered upon need not be a sports activity but can be any type of contest, such as an election or the outcome of primaries and nominating conventions.

Wagers on sports events or contests, to be taxable, must be placed with a person engaged in the business of accepting such wagers. The

purpose of this requirement is to exclude from tax the purely "social" or "friendly" type of bet. A person is considered to be in the business of accepting wagers if he is engaged as a principal who, in accepting wagers, does so on his own account. The principals in such transactions are commonly referred to as "bookmakers," although it is not intended that any technical definition of "bookmaker," such as the maintenance of a handbook or other device for the recording of wagers, be required. It is intended that a wager be considered as "placed" with a principal when it has been placed with another person acting for him. Persons who receive bets for principals are sometimes known as "bookmakers' agents" or as "runners." It is not intended that to be "engaged in the business of accepting such wagers" a person must be either so engaged to the exclusion of all other activities or even primarily so engaged. Thus, for example, an individual may be primarily engaged as a salesman, and also, for the purposes of this tax, be engaged in the business of accepting wagers.

As previously stated, wagers placed in a wagering pool with respect to a sports event or a contest are taxable if the pool is conducted for profit. The requirement that the pool be operated for profit is designed to eliminate from the tax base those pools which are occasionally organized among friends or other associates, all of the contributions being distributed to the winner or winners. A pool would be considered as being operated for profit, if, for example, a person appropriated to himself a percentage of the amount contributed to the pool or required a fee for the privilege of contributing to the pool.

As in the case of bookmaking transactions, a wager will be considered as "placed" in a pool or in a lottery whether placed directly with the person who conducts the pool or lottery or with another person acting for such a person.

A contribution to a lottery will be considered a taxable wager only if the lottery is conducted for profit, as is the case with respect to wagering pools. Although the bill does not contain an all-inclusive definition of the term "lottery," in general the term is intended to mean any scheme for the distribution of property by chance among persons who have paid or have agreed to pay a valuable consideration for the chance, whether called a lottery, raffle, gift enterprise, or some other name. The bill specifically provides that the term includes "policy" or the so-called numbers game and similar types of wagering. Policy, or its various derivatives, is usually a scheme wherein a player selects a number, several numbers, or a series of numbers and pays or agrees to pay a certain amount in consideration of which the person to whom the money is paid engages to pay a prize if the number or numbers selected by the player appear or are published in combinations which constitute a winning combination. (Conceivably the use of letters or other symbols could be substituted for numbers, but this would not alter the fundamental nature of the game as a lottery.) The winning numbers in policy are usually based upon some regularly published series of numbers such as weekly sales reports of a stock exchange or commodity exchange, United States Treasury balance reports, or the winning horses of a series of previously numbered horse races. The above description is not intended to be restrictive as your committee is well aware of the possibility that existing methods of play may be changed in an effort to escape the tax which the bill imposes.

Because the term "lottery" is intended to be broadly construed in order to limit the opportunities for avoidance, your committee has specifically excluded from the term certain types of gambling games which might otherwise come within its technical meaning although perhaps not commonly so considered. Thus, both bills exclude from the term "lottery" any game of a type in which the wagers are usually placed, the winner or winners are usually determined, and the distribution of prizes or other property is usually made, in the presence of all persons placing wagers in the game. Among those games which are within the scope of the exclusion would be card games such as draw poker, stud poker, and blackjack, roulette games, dice games such as craps, bingo, and keno games, and the gambling wheels frequently encountered at country fairs and charity bazaars. On the other hand, punchboards would not normally be excluded under this definition.

Your committee has excluded the above types of gambling not because of any belief that they are not suitable subjects for taxation. However, the method of taxation provided, while particularly appropriate to bookmaking and to policy operation, does not appear readily adaptable to these other forms of gambling. For example, there are obvious practical difficulties in ascertaining the gross amount of wagers made in the course of a dice game and other games in which there is direct and continuous player participation. Moreover, with respect to card games it is frequently difficult to ascertain who, if anybody, is the person operating the game and what his tax liability should be. In some cases, a person may operate the bank directly. In other cases, he may take a percentage of, or impose a flat charge on, each pot or may simply levy a charge for the use of facilities such as a room. Moreover, many of these types of games are frequently engaged in on a friendly or social basis rather than professionally. A differentiation for tax purposes between friendly and professional games would create serious statutory and administrative problems. It is not expected that this problem will exist to any serious extent in the areas within which the bill does impose tax. For example, nonprofessional betting on horse races is probably insignificant in amount. Furthermore, while wagering games of the type excluded from the tax may represent important aspects of commercialized gambling in certain localities, they constitute a relatively small proportion of the total wagering transactions in the United States. Moreover, only a portion of such professional games are in fact carried on in gambling casinos or other permanent establishments which might conceivably be identifiable for tax purposes. It appears that a substantial and perhaps predominant part of such activities are in the nature of "floating" games. That is, the operators of a game will establish themselves in a locality, often in a hotel room, for a period of time as short as 1 or 2 days, and then move on to another locality. The transiency of such activities is not characteristic of the wagering operations upon which the bill does impose tax. Bookmakers and policy operators both depend upon an established clientele, which requires a certain permanency of location. In any event, your committee believes that the tax provided will cover at least 90 percent of total commercial wagering.

Both bills provide specifically that the tax shall not apply with respect to wagers placed in pari-mutuel wagering enterprises licensed

under State law. Such wagering is presently subject to substantial State and, in some instances, local taxation, and to superimpose a Federal tax upon these transactions would only serve to maintain the existing advantage which bookmakers enjoy over pari-mutuel betting by reason of their immunity from pari-mutuel taxes.

Also excluded from the tax are wagers placed in coin-operated devices with respect to which an occupational tax is imposed by section 3267 of the code. Your committee believes that, for administrative reasons, the method of taxation which is presently applied with respect to such machines is preferable to an extension of the wagering tax into this area.

The bills provide that, for the purposes of the tax, the term "lottery" does not include any drawing conducted by organizations exempt from tax under section 101 of the code where no part of the net proceeds derived from such drawing inures to the benefit of any private shareholder or individual. It is, of course, contemplated that the regulations will require the expenses of such a drawing, such as salaries paid to the actual operators, to be reasonable in amount if the exemption is to be allowed. Furthermore, any agreement to pay as compensation a percentage of the amounts contributed would be a clear indication that the drawing is not within the exempt category.

Liability for the wagering tax is placed upon the person who is engaged in the business of accepting wagers or who conducts the pool or lottery. Thus, the tax is to be collected from the bookmaker proper or from the person who conducts the pool or lottery as the principal. Monthly returns of tax are required.

A credit is provided in the case of so-called lay-off money. Bookmakers and policy operators generally attempt to balance one bet against another. A perfect mathematical booking of any race would insure a profit regardless of the ultimate outcome. However, horse-race bookmakers today seldom set their own odds but pay off winning bets upon the basis of the actual pari-mutuel pay-off at the track concerned. Furthermore, policy operators normally pay off on the basis of fixed odds, such as 700 to 1, which remain constant from day to day, although lower odds may be maintained with respect to certain heavily played numbers. Because they are unable to vary the odds in accordance with amounts wagered, bookmakers and policy operators sometimes find that they have accepted a greater amount of wagers upon a certain horse or number than they are willing to carry on their own account. In order to avoid the risk inherent in accepting such disproportionate amounts of wagers, the bookmaker or policy operator "lays off" a portion of his bets with another bookmaker or policy operator. In such cases it is the person with whom the bet is laid off who bears the actual risk of the wager even though it is the person with whom the bet was originally placed that the bettor looks to for his winnings or to whom he pays his losses. It is provided with respect to such laid-off wagers that the bookmaker or policy operator who originally accepts the wager shall be liable for the 10-percent tax upon it but may claim a credit or refund for the amount of the tax if the bet is laid off with another person who also is liable to the wagering tax. Thus, if a bookmaker accepts a \$100 wager and lays off \$60 of the wager with another bookmaker, he is taxable upon the \$100 wager but may claim a credit or refund of tax with respect to the \$60 laid off. In this manner, multiple

taxation of the same wager is avoided. While certain "tracing" difficulties may be anticipated as a result of this provision, it is believed that the credit procedure will facilitate tax enforcement by making available to the collection agencies information of large book-making operations which might not otherwise be readily obtainable. It is contemplated that the regulations will require the maintenance of records which will insure that the person with whom the wager is laid off is identifiable as a person also subject to the wagering tax.

The credit will be allowable only with respect to amounts laid off with persons also liable to the tax on wagers. As a result of this limitation, no credit will be allowable with respect to amounts known in betting parlance as "come-back" money. Come-back money is essentially a wager which a bookmaker lays off at a track rather than with another bookmaker, and, as previously noted, wagers placed in State-licensed pari-mutuel enterprises will not be taxable. Come-back money serves the same purpose as a lay-off proper (that is, it provides the bookmaker with a "hedge") and, if made in large amounts, may have the additional effect of depressing the odds on the particular horse or horses wagered upon. The tax consequences of a combined lay-off and come-back transaction are illustrated by the following example: A bettor places a \$1,000 wager with bookmaker A on horse X; A holds \$100 of the wager and lays off \$900 with bookmaker B; B holds \$200 of the \$900 and bets the remaining \$700 at the track on the horse X. Bookmaker A is taxable with respect to the entire \$1,000 wager but is allowed a credit with respect to the tax on the \$900 laid off; B is taxable on the entire \$900 and is allowed no credit for the \$700 he bets at the track. Thus, cumulative tax liabilities arise of \$190 (10 percent of \$1,900, the aggregate amount of wagers and lay-offs) but a credit is allowable in the amount of \$90 (10 percent of \$900, the amount laid off), leaving a net tax of \$100, or 10 percent of the original \$1,000 wager.

A wager is intended, of course, to be the amount risked by the person placing the bet rather than the amount which he stands to win. Thus, if a person bets \$5 against a bookmaker's \$7 with respect to the outcome of a prize fight, the wager, for the purpose of the tax, is \$5.

It is provided that the amount subject to tax will include not only the wager proper but also any charge incident to the placing of the wager. An example of such an additional charge which is to be included in the taxable amount would be so-called "insurance" money paid bookmakers. Horse-race bookmakers normally place an arbitrary ceiling on the odds upon which they are willing to base their pay-offs, such as, for example, 20 to 1 for win bets, 8 to 1 for place bets, and 4 to 1 for show bets. These ceilings are maintained irrespective of the actual pari-mutuel odds. Bookmakers may sometimes be willing to guarantee the bettor a pay-off based on the actual track odds, no matter how great, in consideration of a small additional charge paid by the bettor, usually 10 percent of the bet. This additional charge is known as insurance. Another example of an amount which would be included as part of a taxable wager would be a charge made by a lottery operator for the privilege of contributing to the pool or bank. On the other hand, the bills specifically provide that the taxable amount shall not include an amount equal to the tax if it has been collected as a separate charge from the bettor. This exclusion conforms to the pattern of the other excises and will avoid the difficult administrative problems involved in collecting a tax on a tax.

The bills contain provisions designed to prevent avoidance of the tax through transfer of wagering activities to points outside of the United States.

Any person who willfully fails to pay the tax provided or to make a return or to keep required records (including a daily record of the gross amount of wagers received) is made liable to criminal penalties (in addition to the civil penalties) of up to 1 year's imprisonment and a fine up to \$10,000. Furthermore, a willful attempt to evade or defeat the tax will be a felony punishable by up to 5 years' imprisonment and up to \$10,000 fine.

2. Occupational tax

In addition to the tax on wagers described above, both your committee's bill and the House bill impose an occupational tax of \$50 per year upon any person liable to the tax on wagers and upon any person engaged in receiving wagers for or on behalf of such a person.

The committee conceives of the occupational tax as an integral part of any plan for the taxation of wagers and as essential to the collection and enforcement of such a tax. Enforcement of a tax on wagers frequently will necessitate the tracing of transactions through complex business relationships, thus requiring the identification of the various steps involved. For this reason, the bills provide that a person who pays the occupational tax must, as part of his registration, identify those persons who are engaged in receiving wagers for or on his behalf, and, in addition, identify the persons on whose behalf he is engaged in receiving wagers.

In general, the provisions of the occupational tax follow the pattern of the other occupational taxes imposed under the code and require registration, posting of special tax stamp by the taxpayers, the maintenance by the collector of a list of taxpayers for public inspection, etc.

Special penalties are imposed for failure to pay the tax or to post or exhibit the stamp. Furthermore, the penalties already described with respect to the tax on wagers will also apply to willful failures to pay the occupational tax. It should also be pointed out that, under the general provisions of section 1001 of Title 18 of the United States Code, any false or fictitious statement made knowingly with respect to the payment of the occupational tax, such as the giving of a false name or address, is subject to a fine of not more than \$10,000 or imprisonment of not more than 5 years, or both.

Past experience indicates that the size of tax collections is directly related to adequacy of enforcement. Your committee believes, with respect to the wagering tax and the occupational tax on the acceptance of wagers, energetic enforcement measures during the period immediately following the introduction of these taxes to be particularly important. Your committee realizes, of course, that the introduction of any new taxes, such as those just described, which depend upon hitherto untapped sources of revenue, inevitably add to the administrative burden of the Bureau of Internal Revenue. Therefore, the Bureau should review the need for any additional administrative requirements in the light of actual experience with the enforcement of these taxes.

3. Coin-operated gaming devices

Section 3267 (a) of the code provides an occupational tax of \$150 per year in the case of coin-operated gaming devices. Section 453 of the bill raises this to \$250 per year. This is the same change as is

provided by the House bill. It is believed that the imposition of a tax on wagering generally, from which coin-operated gaming devices are specifically exempted, requires an increase in this tax to provide equality of treatment. It is estimated that in a full year of operation this will increase revenues by \$7 million annually.

H. FLOOR STOCK TAXES AND REFUNDS

Both floor stock taxes and floor stock refunds are imposed or granted one time only: a tax when an increase in rates occurs and a refund when a decrease in rates occurs. They are imposed or granted with respect to inventories of items which are beyond the point at which an excise tax ordinarily is imposed at the time the increase or decrease in rates occurs. They are used only in the case of taxes imposed at the manufacturers' level, since only in these cases are there any inventories of items held by persons other than consumers which have not been affected by recent changes in the excise rates. Floor stock taxes and refunds have traditionally been imposed in the case of alcoholic beverages and occasionally with respect to other products.

Floor stock taxes have been imposed for three primary reasons: (1) To prevent wholesalers and retailers from avoiding a tax increase by stocking up on items before a tax increase or new tax becomes effective, (2) to make the increase or new tax effective on items produced at an earlier date and thus increase revenues in the initial year of imposition, and (3) to prevent competitive discrimination in cases where some wholesalers and retailers have large stocks of items where the new or additional tax has not been imposed and others do not. In the case of floor stock refunds the primary reason for their provision is to prevent discrimination which would exist where some retailers and wholesalers have large tax-paid inventories, while their competitors do not. This is particularly important where the tax rate decreases are large and where, through various business arrangements, manufacturers are selling directly to consumers. However, in imposing floor stock taxes or granting floor stock refunds it is also necessary to consider the large amount of work which these taxes or refunds entail both for the taxpayer and the Government. The processing of floor stock returns is an extensive task and their application at both the wholesale and the retail levels affects hundreds of thousands of dealers. Because of these administrative considerations your committee's bill limits floor stock taxes refunds to those cases where there appears to be a strong need for them.

Under both the House bill and your committee's bill floor stock taxes are imposed with respect to the increases in the tax on distilled spirits, beer, wine, and cigarettes. In the case of gasoline a floor stock tax is also imposed but only with respect to stocks of gasoline held by retailers other than at their retail establishments and with respect to wholesalers. The rates of tax under these floor stock taxes are the same as the increases in tax provided for these items. It is anticipated that in the fiscal year 1952 these floor stock taxes will increase collections in that year, but only that year, by \$120 million. Of this total, \$98 million is accounted for by the floor stock taxes on alcoholic beverages, and the bulk of this is expected to be collected from distilled spirits since inventories are largest in this case. About \$22 million is expected to be collected from the floor stock tax on cigarettes, but only a nominal amount from the floor stock tax on gasoline. In the

latter case the floor stock tax is imposed, not with the expectation of receiving large revenues from it, but to give assurance that substantial revenues will not be lost by an unusually large transfer of title to gasoline prior to the effective date of the tax increase.

Consideration was also given to the imposition of floor stock taxes in the case of other manufacturers' excises. However, no action was taken with respect to them largely because the items are likely to be in relatively short supply when the excise taxes become effective, making it difficult for dealers to avoid tax by increasing their inventories prior to the effective date of the tax increase. Also, the large number of retailers and items involved in many cases make the imposition of the tax impractical in view of the size of the rate increases or the rates of the new taxes.

Your committee's bill also provides for floor stock refunds at the time of the termination, January 1, 1954, of the excise increases made by this bill. The refunds are to be limited to the items on which floor stock taxes are imposed at the effective date of the increase; that is, they are limited to distilled spirits, beer, wine, and cigarettes and to stocks of gasoline held by retailers at other than their retail establishments. The refunds are to be granted only with respect to the increases imposed by this bill, and only if the owner of the inventories can show that for 3 months after the reduction date the prices charged for the items reflect the tax decreases made.

X. TAX TREATMENT OF ILLEGAL ACTIVITIES

Several amendments have been proposed to the committee which would affect the tax treatment of gamblers and other persons who receive income from illegal sources. In summary, these amendments would—

(a) Disallow as a deduction from gross income any expenses incurred in illegal wagering and any losses resulting from illegal wagering;

(b) Require the keeping of more detailed records by wagering houses;

(c) Require the keeping of taxpayers' records for 7 years; and

(d) Require all individuals with a gross income during the current or five preceding taxable years in excess of \$2,500 from illegal activities to file a net worth statement.

Your committee believes that additional time is necessary for detailed study of these suggestions and therefore believes that action on them should not be taken at this time. The committee is fully aware of the importance of a strict enforcement of the income tax laws in this area.

(The detailed discussion of the technical provisions of the bill will be printed separately and will appear as a supplemental report.)

CHANGES IN EXISTING LAW

In the opinion of the committee, it is necessary, in order to expedite the business of the Senate, to dispense with the requirements of subsection (4) of rule XXIX of the Standing Rules of the Senate (relating to the showing of changes in existing law made by the bill, as reported).

82D CONGRESS }
1st Session }

SENATE

{ REPORT
No. 781
PART 2

THE REVENUE ACT OF 1951

SUPPLEMENTAL REPORT

OF THE

COMMITTEE ON FINANCE UNITED STATES SENATE

TO ACCOMPANY

H. R. 4473

A BILL TO PROVIDE REVENUE,
AND FOR OTHER PURPOSES



SEPTEMBER 18 (legislative day, SEPTEMBER 13), 1951.—Ordered
to be printed

UNITED STATES
GOVERNMENT PRINTING OFFICE
WASHINGTON : 1951

REVENUE ACT OF 1951

SEPTEMBER 18 (legislative day, SEPTEMBER 13), 1951.—Ordered to be printed

Mr. GEORGE, from the Committee on Finance, submitted the following

SUPPLEMENTAL REPORT

[To accompany H. R. 4473]

DETAILED DISCUSSION OF THE TECHNICAL PROVISIONS OF THE BILL

TITLE I—INCREASE IN INCOME TAX RATES

PART I—INDIVIDUAL INCOME TAXES

SECTION 101. INCREASE IN SURTAX FOR 1951, 1952, AND 1953

Subsection (a) of section 101 of the bill amends section 12 (b) of the code, relating to rates of surtax, to impose a tax increase with respect to individuals having as a taxable year the calendar year 1951, and to impose a further increase with respect to taxable years beginning after October 31, 1951, and before January 1, 1954. In the case of taxable years beginning after October 31, 1951, and before January 1, 1954, the increase provided is approximately 11 percent of tax liability under present rates or 8 percent of surtax net income after present taxes, whichever is lesser. In the case of the calendar year 1951, since the increase in rates is not to be effective until November 1, 1951, the increase provided is in the same proportion to the increase for a full taxable year as the number of calendar months after October 31, 1951, bears to the 12 calendar months in 1951, that is, an increase of approximately one-sixth of 11 percent of present tax liability, or one-sixth of 8 percent of surtax net income after present taxes, whichever is lesser. The amendment of section 12 (b) with respect to taxable years beginning after October 31, 1951, is not applicable to an individual who qualifies as the head of a household, who will be taxed as provided by subsection (c) of section 12 as amended by section 301 of the bill.

Paragraph (1) of subsection (b), as amended, contains a table which sets forth the increased tax for the calendar year 1951 for each level of surtax net income and paragraph (2) contains a similar table which is applicable to taxable years beginning after October 31, 1951, and before January 1, 1954, including the calendar years 1952 and 1953. Paragraph (3) has a table which sets forth the rates applicable under present law and which will be applicable for taxable years beginning after December 31, 1953. The bill provides no increase in the rates of tax applicable to individuals in the case of a taxable year ending before October 31, 1951, except in the case covered by section 104 of the bill of a joint return of husband and wife with different taxable years because of the death of either within the taxable year when the taxable year of the surviving spouse began before November 1, 1951, and ended after October 31, 1951.

Subsection (c) of section 101 amends section 12 (f) of the code relating to limitation on tax. Under paragraph (1) of subsection (f), as amended, it is provided that in the case of the calendar year 1951, the combined normal tax and surtax shall in no event exceed 87.2 percent of the net income for such taxable year. Paragraph (2) relates to taxable years beginning after October 31, 1951, and before January 1, 1954, and limits the amount of the combined normal tax and surtax for such taxable years to 88 percent of the net income. Under paragraph (3), applicable to taxable years beginning after December 31, 1953, the corresponding limitation is 87 percent of net income.

SECTION 102. INDIVIDUALS WITH ADJUSTED GROSS INCOME OF LESS THAN \$5,000

Section 102 of the bill, which corresponds to the like-designated section of the House bill, amends section 400 of the code to provide three new tax tables for the use of taxpayers with adjusted gross income of less than \$5,000. Table I is applicable to the calendar year 1951 and is for the use of single persons, married persons filing separate returns and married persons filing joint returns. Since the provisions of title III of the bill, relating to tax treatment in the case of a head of a household, do not apply to the calendar year 1951, a single person with adjusted gross income of less than \$5,000 who might for subsequent years qualify for such treatment may use this table in computing income liability for the calendar year 1951. Table II applies to taxable years beginning after October 31, 1951, and before January 1, 1954, and is for the use of single persons, married persons filing separate returns, married persons filing joint returns, and any single person who qualifies as the head of a household under title III of this bill. The increases in tax imposed by this bill are reflected in tables I and II for each level of adjusted gross income. Table III is for the use of the same persons as may use table II and is applicable to taxable years beginning after December 31, 1953. Except for the computations applicable to a taxpayer who qualifies as the head of a household, the income tax liability reflected in table III for each level of adjusted gross income is the same as under the tax rates which are presently applicable:

SECTION 103. INAPPLICABILITY OF CERTAIN PENALTIES AND ADDITIONS TO TAX

This section of the bill, which has no corresponding provision in the bill as passed by the House, amends sections 145 and 294 (d) (2) of the code. Subsection (a) amends section 145 by redesignating the present subsection (f) as subsection (g) and by inserting a new subsection (f). The new subsection (f) makes certain penalties prescribed by section 145 inapplicable to a failure to take into account the increases in rates of tax imposed on individuals by this bill. Similarly, the sentence added by subsection (b) of this section to paragraph (2) of section 294 (d) makes the provisions of such paragraph relating to additions to tax for substantial underestimate of tax inapplicable to cases where the failure to meet the prescribed requirements with respect to estimated tax is by reason of the increases in rates of tax imposed on individuals by this bill.

SECTION 104. COMPUTATION OF TAX IN CASE OF CERTAIN JOINT RETURNS

Section 104, which corresponds to section 103 of the House bill and is identical except for references to applicable effective dates, applies to the situation where a joint return of a husband and wife is filed under the provisions of section 51 (b) (3) of the Internal Revenue Code, the husband and the wife having different taxable years because of the death of either, and the taxable year of the surviving spouse covered by such joint return began before November 1, 1951, and ended after October 31, 1951. In respect of such a case, section 104 provides that the amendments made by part I of title I of this bill, relating to income-tax rates, shall be applicable to the joint return as if the taxable years of both spouses covered by the joint return ended on the date of the closing of the surviving spouse's taxable year.

Section 51 (b) (3) and (4) of the code permit the filing of a joint return by a surviving spouse if the taxable years of each spouse began on the same day but ended on different days because of the death of either spouse, or both. Under the provisions of section 104, if one spouse dies during 1951 and the surviving spouse elects to file a joint return under section 51 (b) (3) of the code covering both his calendar year 1951 and the taxable year of the deceased spouse, the tax liability on the joint return will be computed at the rates applicable under this bill to a return for the calendar year 1951. It is immaterial, in such a case, whether the taxable year of the deceased spouse ended before or after November 1, 1951. If the taxable year of the surviving spouse which began before November 1, 1951, and ended after October 31, 1951, is not a calendar year, the tax liability on a joint return by the surviving spouse will be computed under the provisions of section 108 (h) of the code (as added by sec. 131 of this bill), and the computations required therein with respect to calendar months in the taxable year will be made by reference to the calendar months of the taxable year of the surviving spouse.

SECTION 105. EFFECTIVE DATE OF PART I

This section, which corresponds to section 104 of the House bill, provides that the amendments made by part I of the bill shall be applicable only with respect to taxable years beginning after October 31, 1951, and to the calendar year 1951, except as provided in section 104 of the bill. It also provides a cross reference to section 131 of the bill for treatment of taxable years (other than the calendar year 1951) beginning before November 1, 1951, and ending after October 31, 1951. The bill as passed by the House made the increases in individual rates provided therein applicable to taxable year beginning after August 31, 1951.

PART II—CORPORATION INCOME TAXES

SECTION 121. INCREASE IN RATE OF CORPORATION
NORMAL TAX AND SURTAX

This section, which corresponds to section 121 of the bill as passed by the House, amends the corporate tax provisions to impose, in general, increases in tax on corporate income applicable to the calendar year 1951 and to taxable years beginning after March 31, 1951, and before January 1, 1954.

Subsection (a) of section 121 amends subsections (a) and (b) of section 13 of the code, relating to normal tax on corporations. As in the bill passed by the House, the amendment to subsection (a) of section 13 eliminates from the code provisions which are applicable to prior taxable years, and retains the definitions of "adjusted gross income" and "normal tax net income" added by the Revenue Act of 1950. The amendment to subsection (b) of section 13 increases the present 25-percent normal tax on corporation normal tax net income to 26½ percent for the calendar year 1951, and to 27 percent for taxable years beginning after March 31, 1951, and before January 1, 1954. For taxable years beginning after December 31, 1953, it is provided that a 25-percent rate shall be effective.

Subsection (b) of section 121 amends subsection (a) of section 15 to eliminate from the code provisions applicable only to prior taxable years and retains the definition of "corporation surtax net income" added by the Revenue Act of 1950. This part of the amendment made by subsection (b) corresponds to subsection (f) (2) of section 121 of the bill as passed by the House. Subsection (b) also amends subsection (b) of section 15 to impose increases in the surtax rate on corporation surtax net income. For the calendar year 1951 the surtax rate is increased from the present 22 percent to 24¼ percent of the corporation surtax net income in excess of \$25,000, and for taxable years beginning after March 31, 1951, and before January 1, 1954, the increased rate provided is 25 percent of the corporation surtax net income in excess of \$25,000. For taxable years beginning after December 31, 1953, it is provided that the surtax rate shall be 22 percent of corporation surtax net income in excess of \$25,000, which is the rate presently applicable to taxable years beginning after June 30, 1950.

Subsection (c) of section 121, which corresponds to subsection (b) of section 121 of the House bill, amends section 430 (a) of the code, as added by section 101 of the Excess Profits Tax Act of 1950. Section

430 (a) presently imposes an excess profits tax of whichever is the lesser of (1) 30 percent of "adjusted excess profits net income" (as defined by sec. 431), or (2) an amount equal to the excess of 62 percent of the "excess profits net income" (as defined by sec. 433) over the tax which would be imposed for such taxable year if the normal tax rate and the surtax rate applicable for the taxable year were applied to the corporation's "excess profits net income" for the taxable year. The amendment made by this subsection makes the 62 percent ceiling rate provision of paragraph (2) of section 430 (a) (2) applicable only to taxable years ending before April 1, 1951, and designates such provision as subparagraph (A) under paragraph (2). It also adds to paragraph (2) new subparagraphs (B) and (C) which provide a different method for computing an alternative amount of tax which will be the maximum tax if less than the 30 percent tax provided by section 430 (a) (1). Subparagraph (B), which is applicable to the calendar year 1951, provides that the alternative shall be an amount equal to 16½ percent of the excess profits net income for the taxable year, except that such amount shall in the case of a consolidated return under section 141 be reduced by an amount which bears the same ratio (but not in excess of 100 percent) to the increase of 2 percent in the surtax imposed by reason of section 141 (c) as the amount of the consolidated excess profits net income bears to the amount of the consolidated corporation surtax net income. Subparagraph (C), which is applicable to taxable years beginning after March 31, 1951, provides that the alternative shall be an amount equal to 17 percent of excess profits net income and has the same provision as subparagraph (B) in respect of the reduction of such amount in the case of a consolidated return.

Subsection (d) of section 121, which corresponds to subsection (c) of section 121 of the bill as passed by the House, amends section 207 (a) (1), relating to normal tax and surtax on mutual insurance companies other than life or marine, and section 207 (a) (3), relating to the normal tax and surtax on interinsurers and reciprocal underwriters. Subsection (e) of section 121, which corresponds to subsection (d) of section 121 of the House bill, amends section 362 (b), relating to tax on regulated investment companies; and subsection (f), which corresponds to subsection (e) of section 121 of the bill as it passed the House, amends section 421 (a) (1), relating to imposition of tax on business income of certain section 101 organizations. The amendments made by these subsections reflect for each of these specialized types of corporations the increased normal tax and surtax rates which will be applicable to corporations in general under the amendments made to sections 13 (b) and 15 (b) by subsections (a) and (b) of this section of the bill. They also make provision for the rates of normal tax and surtax which will be applicable to such corporations for taxable years beginning after December 31, 1953, when the rates presently applicable will again be in effect. It is to be noted that in the amended provisions relating to mutual insurance companies other than life or marine, to interinsurers or reciprocal underwriters, and to regulated investment companies, a normal tax rate and a surtax rate is provided in each instance which will be applicable generally in computing the tax for taxable years which began after December 31, 1950, and before April 1, 1951, and which end after March 31, 1951. Thus, fiscal year taxpayers with a taxable year beginning on either the first

day of February or the first day of March 1951, will be taxed on their income for such taxable year on the same basis as will a calendar year taxpayer for its taxable year January 1 to December 31, 1951. In this connection, the effective dates for the amendments made by part II of title I of the bill, as provided in section 124 of this bill, should also be noted.

Subsection (g) of this section, which corresponds to subsection (f) of the bill as it passed the House, is a technical amendment which eliminates from the code, by repeal of section 14, the provisions relating to normal tax on special classes of corporations with normal tax net income of less than \$25,000. The various alternative rates provided in such section were applicable only in the case of a taxable year beginning before July 1, 1950.

SECTION 122. CREDITS OF CORPORATIONS

Subsection (a) of this section, which corresponds to the like designated provision of the bill as passed by the House, amends section 26 (b), relating to the credit for dividends received. The only change in paragraph (1) of subsection (b) is technical. Paragraph (2) presently provides for a credit of 59 percent of the amount received as dividends on the preferred stock of a public utility subject to income tax, in the case of taxable years beginning after June 30, 1950, and for a credit of 57 percent of such amount in the case of the calendar year 1950. As amended by subsection (a) of this section, the credit provided in paragraph (2) is (A) 61 percent of such amount in the case of the calendar year 1951, (B) 62 percent of such amount in the case of taxable years beginning after March 31, 1951, and before January 1, 1954, and (C) 59 percent of such amount for taxable years beginning after December 31, 1953. The present provisions of paragraph (2) which are applicable to prior taxable years are eliminated.

Under section 26 (b) (2) of the code, as amended by the bill, the credit for dividends received on the preferred stock of a public utility is limited to dividends with respect to which the credit provided in section 26 (h) (relating to credit for dividends paid on the preferred stock of a public utility) is allowable. Thus, the full 85 percent dividends-received credit provided in section 26 (b) (1) of the code will apply to dividends received with respect to which the dividends paid credit provided in section 26 (h) is not allowable.

Subsection (b) of this section, which corresponds to subsection (b) of section 121 of the House bill, amends the first sentence of paragraph (1) of section 26 (h), relating to the credit for dividends paid on certain preferred stock of a public utility. In its present form paragraph (1) provides for the credit in the case of the calendar year 1950 and in the case of taxable years beginning after June 30, 1950. The amendment made by this subsection eliminates these provisions and makes provision in clauses designated (A), (B) and (C) for the credit for the calendar year 1951, for taxable years beginning after March 31, 1951, and before January 1, 1954, and for taxable years beginning after December 31, 1953. Respectively, the credits provided for such taxable years are an amount equal to 28 percent, 27 percent, and 30 percent of whichever is the lower of (1) the entire amount of dividends paid by the public utility during the taxable year on its preferred stock or (2) the excess of the public utility company's

adjusted net income for the taxable year over the amount of the credit for dividends received determined under section 26 (b) for such year.

Subsection (c) of this section, which corresponds to subsection (c) of section 121 of the House bill, amends section 26 (i) with respect to the credit allowed Western Hemisphere trade corporations in the determination of normal-tax net income and surtax net income. As amended, section 26 (i) provides, in the case of the calendar year 1951, that the credit shall be 27½ percent of the normal-tax net income computed without regard to this credit. The percentage provided is 27 percent in the case of taxable years beginning after March 31, 1951, and before January 1, 1954, and 30 percent in the case of taxable years beginning after December 31, 1953. Under the present section 26 (i), the credit is 30 percent of normal tax net income in the case of taxable years beginning after June 30, 1950, and 33 percent in the case of the calendar year 1950. The corresponding provision in the House bill provided for a 27 percent credit applicable to all taxable years beginning after December 31, 1950.

SECTION 123. FILING OF CORPORATION RETURNS FOR TAXABLE YEARS ENDING AFTER MARCH 31, 1951, AND BEFORE OCTOBER 1, 1951

This section, which has no corresponding section in the bill as passed by the House and which is not amendatory of the Internal Revenue Code, makes provision for the case in which the return filed by a corporation prior to the enactment of the Revenue Act of 1951 will be affected by the amendments made to the code by such act with respect to computation of tax liability. It provides, in effect, that for taxable years which ended after March 31, 1951, but before October 1, 1951, corporations subject to income or excess profits tax shall, after the date of enactment of the Revenue Act of 1951, and on or before January 15, 1952, make and file returns for such taxable years with respect to the tax imposed by chapter 1 of the Internal Revenue Code (as amended by this bill) for such taxable years. It is further provided that such return, so made and filed, shall constitute the return for such taxable year for all purposes of the code, and that any return for any of the specified taxable years that may have been filed on or before the date of enactment of the Revenue Act of 1951 shall not be considered a return for such year for any of the purposes of the code.

The income or excess profits taxes imposed for any such taxable year (determined with the amendments made by the Revenue Act of 1951) are required by the section to be paid on January 15, 1952, in lieu of being paid on the date prescribed by section 56 (a) of the code. The provisions of section 56 (b) of the code (relating to installment payments) are, however, not affected and the taxes for the taxable year required by this section of the bill to be paid on January 15, 1952, can, at the election of the taxpayer, be paid in four installments (first two installments, 30 percent of the tax, and last two installments, 20 percent of the tax). Payments in respect of any income or excess profits tax for any of the specified taxable years made prior to the date of enactment of the Revenue Act of 1951, to the extent not credited or refunded, will, under the provisions of this section, be deemed

to have been made at the time of the filing of the return required by the section on account of the tax for such taxable year determined under chapter 1 of the code as amended by the Revenue Act of 1951.

In treating such taxes as paid at the time of the filing of the return required by this section, such payment (in the event the return is filed before the due date prescribed by this section) will be subject to the provisions of section 322 (b) (4) of the code, which section provides special rules applicable for certain purposes where a tax payment is made at the time of filing a return which is filed before its due date.

SECTION 124. EFFECTIVE DATE

This section, which corresponds to section 125 of the bill as it passed the House, provides in general that the amendments made by part II of title I of the bill, shall be applicable only with respect to taxable years beginning after March 31, 1951, and to taxable years beginning on January 1, 1951, and ending on December 31, 1951. Exceptions are provided in the cases of the amendments made to section 207 (relating to certain insurance companies), to section 362 (relating to regulated investment companies) and to section 421 (relating to taxation of business income of certain section 101 organizations), it being provided that such amendments shall be applicable to taxable years beginning after December 31, 1950, and ending after March 31, 1951, that is, the calendar year 1951, fiscal years beginning on the first day of February or the first day of March 1951, and later taxable years. Accordingly, in the case of such taxpayers the amendments made by this part are not applicable to taxable years which ended before January 1, 1951, and fiscal taxable years which began in 1950 and ended on the last days of January, February, or March of 1951. Another special provision made by the section is to the effect that in the case of an insurance company subject to the tax imposed by section 207, the provisions of section 26 (b) of the code (relating to the credit for dividends received) applicable to the calendar year 1951 shall also be applicable to taxable years of such an insurance company beginning after December 31, 1950, and before April 1, 1951, and ending after March 31, 1951.

The sections also provides a cross reference to section 131 of the bill for provisions with respect to taxable years beginning before April 1, 1951, and ending after March 31, 1951.

PART III—FISCAL YEAR TAXPAYERS

SECTION 131. FISCAL YEAR TAXPAYERS

This section, which corresponds to the like-designated section of the bill as it passed the House, amends section 108 of the code, relating to both corporate and individual fiscal year taxpayers, to provide rules for the computation of tax in the cases of fiscal years which cut cross one or more of the effective dates of changes in the provisions affecting computation of tax made by the Revenue Act of 1950 and the Excess Profits Tax Act of 1950, and by the provisions of this bill.

Subsection (a) of this section, which corresponds to subsection (a) of section 121 of the bill as it passed the House amends section 108 (f) of the code to provide rules for the computation of the income tax of corporations in the case of fiscal years beginning before July 1, 1950, and ending after June 30, 1950. In the case of such a fiscal year which ends before April 1, 1951, the amendment made by the bill does not change the computation of the tax provided under existing law for such a year. If the fiscal year (beginning before July 1, 1950) ends after March 31, 1951, the amendment does affect a change in the existing law with regard to the computation of the tax for such a year under section 108 (f). In such a case the amendment provides for the computation and proration of three tentative taxes.

In computing the tentative taxes under paragraphs (1), (2), and (3) of section 108 (f), the net income, and the adjusted net income, of the corporation are not recomputed. However, in the case of a Western Hemisphere trade corporation, or a public utility which has paid dividends on its preferred stock, or any corporation which has received dividends on the preferred stock of a public utility with respect to which the credit provided in section 26 (h) is allowed, the amount of the normal-tax net income, and the amount of the corporation surtax net income, will be different for each of the three computations. A Western Hemisphere trade corporation, for example, will compute its tentative tax under paragraph (1) of section 108 (f) without computing a surtax, and its normal-tax net income will be computed without regard to the credit provided in section 26 (i) of the code; its tentative normal tax and tentative surtax under paragraph (2) of section 108 (f) will be computed on a normal-tax net income and a corporation surtax net income determined with the allowance of the 31-percent credit provided in section 26 (i) applicable to taxable years beginning on July 1, 1950 (determined without regard to the amendment of section 26 (i) made by the Excess Profits Tax Act of 1950); and its tentative normal tax and tentative surtax under paragraph (3) of section 108 (f) will be computed on a normal-tax net income and a corporation surtax net income determined with the allowance of the 27-percent credit provided in section 26 (i) applicable to taxable years beginning on April 1, 1951.

Subsection (a) of this section also amends section 108 (g) of the code to provide for the computation of the tax of a fiscal-year corporation for a taxable year beginning after June 30, 1951, and before April 1, 1951, and ending after March 31, 1951. In the case of such a fiscal year it is provided that the tax imposed by sections 13 and 15 shall be an amount equal to the sum of—

- (1) that portion of a tentative tax, computed under the tax rates, and the credits provided in section 26, applicable to taxable years beginning on July 1, 1950, which the number of days in the fiscal year prior to April 1, 1951, bears to the total number of days in the taxable year, plus

- (2) that portion of a tentative tax, computed under the tax rates, and the credits provided in section 26, applicable to taxable years beginning on April 1, 1951, which the number of days in the taxable year after March 31, 1951, bears to the total number of days in the taxable year.

The tentative tax under clause (1) will consist of a tentative normal tax at the rate of 25 percent of the normal-tax net income, and a tentative surtax of 22 percent of the corporation surtax net income in excess of \$25,000. The tentative tax under clause (2) will consist of a tentative normal tax at the rate of 27 percent of the normal-tax net income and a tentative surtax of 25 percent of the corporation surtax net income in excess of \$25,000. The net income of the corporation for the taxable year is not recomputed in determining the tentative tax under either clause (1) or (2). If the taxpayer paid or received dividends on preferred stock described in section 26 (h) of the code, or if the taxpayer is a western hemisphere trade corporation, the amount of the normal-tax net income, and the amount of the corporation surtax net income, applicable in the computation under clause (1), will differ from the amount used for the purpose of clause (2).

A new subsection (h) is also added to section 108 by this subsection of section 131 of the bill. This new subsection provides for the computation of the tax of a taxpayer, other than a corporation, for a fiscal year beginning before November 1, 1951, and ending after October 31, 1951. In the case of such a fiscal year, the tax imposed by sections 11 and 12, section 400, or section 421 (a) (2), shall be an amount equal to the sum of—

(1) that portion of a tentative tax, computed under the provisions of sections 11 and 12, or section 400, applicable to taxable years beginning on October 1, 1950, which the number of months in such taxable year prior to November 1, 1951, bears to the total number of calendar months in such taxable year, plus

(2) that portion of a tentative tax, computed under the provisions of sections 11 and 12, or section 400, applicable to years beginning on November 1, 1951, as if such provisions (other than the provisions relating to the head of a household) were applicable to such taxable year, which the number of calendar months in such taxable year after October 31, 1951, bears to the total number of calendar months in such taxable year.

The net income of the taxpayer for the fiscal year is not recomputed in determining the tentative tax under either clause (1) or clause (2). It is further provided that subsection (h) shall not apply in the case of a trust described in section 421 (b) (2) if the taxable year of such trust began before January 1, 1951.

A new subsection (i) is also added to section 108 by subsection (a) of section 131. For the purposes of section 108, it provides that a calendar month shall be disregarded if less than 15 days of such month fall within the taxable year, and that a calendar month shall be included as a full calendar month within the taxable year if more than 14 days of such month fall within the taxable year.

A new subsection (j) is added to section 108 by this subsection of section 131. This provides for the computation of tax in the case of taxable years of individuals beginning in 1953 and ending in 1954. Again the method of computation provided involves the computation and proration of two tentative taxes, the first computed upon the basis of the provisions of sections 11 and 12, section 400, or section 421 (a) (2), applicable to years beginning on January 1, 1953, and the second computed upon the basis of the provisions of such sections applicable to years beginning on January 1, 1954.

Provision for the computation of the tax of corporations in the case of taxable years beginning in 1953 and ending in 1954 is made in a new subsection (k) which is added to section 108 by this subsection of section 131 of the bill. The method of computation provided is again the computation and proration of two tentative surtaxes, the first computed upon the basis of the provisions of sections 13 and 15, or section 421 (a) (1), applicable to years beginning on January 1, 1953, the second computed upon the basis of the provisions of such sections applicable to years beginning on January 1, 1954.

Subsection (b) of section 131, which corresponds to a similar provision in the House bill, amends section 430 (b) of the code, relating to computation of the excess-profits tax for taxable years beginning before July 1, 1950, and ending after June 30, 1950. The amendment does not change the computation under existing law of the excess-profits tax for a taxable year which ends before April 1, 1951. In the case of a taxable year beginning before April 1, 1951, whether beginning before, on, or after July 1, 1950), and ending after March 31, 1951 (other than the calendar year 1951), the amendment will not affect the amount of the excess-profits tax for the fiscal year if the excess-profits tax is the tax computed under section 430 (a) (1), that is, if the excess-profits tax is 30 percent of the adjusted excess-profits net income. However, if the taxpayer's excess-profits tax for such fiscal year is the excess-profits tax computed with reference to the ceiling rate provided in section 430 (a) (2), the amendment will result in reflecting in the excess-profits tax for the taxable year the effect of the amendment made by section 121 (c) of the bill, changing the method of computing the ceiling rate for taxable years beginning after March 31, 1951.

Under the amendment, in the case of a taxable year beginning before April 1, 1951, and ending after March 31, 1951 (other than the calendar year 1951), a tentative excess-profits tax will first be computed (as provided in sec. 430 (b) (2) (A)) under the provisions of section 430 (a) of the code applicable to taxable years ending prior to April 1, 1951; that is, a ceiling rate of 62 percent is to be applied in the computation. In determining under section 430 (a) (2) the excess of 62 percent of the excess-profits net income over the income tax which would be imposed under sections 13, 14, and 15 of the code upon a normal-tax net income and corporation-surtax net income in an amount equal to the excess-profits net income for the taxable year, such tax must be computed under the provisions of section 108 (f) or (g), whichever is applicable. Such excess will be the tentative tax referred to in section 430 (b) (2) (A) unless 30 percent of the adjusted excess-profits net income results in a smaller tentative tax, in which case it will be such smaller tentative tax.

The computation of a tentative tax under section 430 (b) (2) (B) will be made under the provisions of section 430 (a) applicable to taxable years beginning on April 1, 1951. In computing such a tentative tax the new method of determining the maximum excess-profits tax provided under section 430 (a) (2) (C), described above, will be used. The tentative taxes computed under subparagraphs (A) and (B) of section 430 (b) (2) will then be prorated as provided in such section, and the excess-profits tax for the taxable year will be the sum of such prorated taxes.

If the corporation is a new corporation to which the special ceiling rates provided in section 430 (a) (3) and 430 (e) are applicable (see sec. 501 of the bill which amends sec. 430 of the code), then the computation of the tentative taxes for the fiscal year, in the manner described above, will take into account the special rates provided in subsection (e) of section 430 of the code.

Subsection (c) of section 131 provides a necessary technical amendment to paragraph (2) of section 108 (e) of the code and changes the designation of the present subsection (g) of section 108 to subsection "(1)."

TITLE II—WITHHOLDING OF TAX AT SOURCE

SECTION 201. PERCENTAGE METHOD OF WITHHOLDING

Section 201, which corresponds to section 221 of the bill as it passed the House, amends section 1622 (a) of the code by changing the percentage rate of withholding from 18 percent to 20 percent in the case of wages paid on or after November 1, 1951, and before January 1, 1954.

SECTION 202. WAGE BRACKET WITHHOLDING

This section, which corresponds to section 222 of the bill as passed by the House, amends section 1622 (c) (1), relating to wage-bracket withholding, to provide new tables which reflect the increased tax rates.

SECTION 203. ADDITIONAL WITHHOLDING OF TAX ON WAGES UPON AGREEMENT BY EMPLOYER AND EMPLOYEE

This section of the bill, which is identical with that of the House bill, adds to section 1622 of the code (relating to income tax collected at source on wages) a new subsection numbered (k) and entitled "Additional Withholding." This new subsection authorizes the Secretary to provide, by regulations, for withholding in addition to that otherwise required under section 1622 in cases in which the employer and the employee agree to such additional withholding. The Secretary is authorized to prescribe by regulations the form of such agreement and the conditions under which and the extent to which such an agreement shall be deemed proper. It is further provided by this new subsection that any amount actually withheld pursuant to such an additional withholding agreement entered into by and between an employer and an employee shall, for all purposes, be considered tax required to be deducted and withheld under applicable withholding provisions.

SECTION 204. EFFECTIVE DATE

This section, which corresponds to section 224 of the House bill, provides that the amendments made by title II shall be applicable only with respect to wages paid on or after November 1, 1951. It is immaterial whether the wages were earned before or after November 1, 1951. If they are paid on or after November 1, 1951, the new withholding rates will apply.

TITLE III—MISCELLANEOUS INCOME TAX AMENDMENTS

SECTION 301. TAX TREATMENT IN CASE OF HEAD OF HOUSEHOLD

This section, which corresponds to section 301 of the House bill, amends section 12 (c) of the code to provide a special computation of surtax for a taxpayer who qualifies as the head of a household. The effect of the amendment is that the combined normal tax and surtax of such a taxpayer will be an amount approximately equal to the combined normal tax and surtax as computed under sections 11 and 12 (b) reduced by one-quarter (instead of one-half as provided in the House bill) of the amount by which such combined tax exceeds the combined normal tax and surtax that would be determined if the return of the taxpayer were a joint return to which section 12 (d) was applicable. Section 12 (c) is applicable only with respect to taxable years beginning after October 31, 1951, instead of after August 31, 1951, as in the House bill.

Paragraph (1) of section 12 (c) contains a special surtax table prescribing the rates of surtax to be used in computing the tax of a head of a household for taxable years beginning after October 31, 1951, and before January 1, 1954, and paragraph (2) contains a similar table prescribing the rates applicable to taxable years beginning after December 31, 1953.

Paragraph (3) defines a head of a household as an individual who is not married at the close of his taxable year and who maintains as his home a household which constitutes for such taxable year the principal place of abode, as a member of such household, of one or more of certain classes of persons related to the taxpayer and described in subparagraphs (A) and (B) of paragraph (3). In no event, however, shall an individual be considered as maintaining a household unless he furnishes over half of the cost of maintaining such household during the taxable year. Thus, for purposes of section 12 (c), only one person can be considered as head of a particular household during a particular taxable year.

The persons described in subparagraph (A) include only a son or daughter of the taxpayer, or a descendant of either and a stepson or stepdaughter of the taxpayer. The persons described in subparagraph (B) are those persons (other than those described in subparagraph (A)) who are dependents of the taxpayer and for whom the taxpayer is entitled to an exemption for the taxable year under section 25 (b). Subparagraph (A) in the bill as passed by the House also included a descendant of a stepson or stepdaughter of the taxpayer. However, since such descendants do not constitute dependents of the taxpayer under section 25 (b) your committee has eliminated them from the class of persons through whom the taxpayer may qualify as head of household.

If the person, whose principal place of abode is the home of the taxpayer, is an unmarried person, as described in subparagraph (A), that is, a child or descendant of a child of the taxpayer, the taxpayer may (if the other requirements of sec. 12 (c) are met) qualify as a head of a household even though the taxpayer would not be entitled to an exemption for such person as a dependent under section 25 (b).

Thus, an unmarried taxpayer who maintains as his home a household which includes only himself and his unmarried son, may be the head of the household even though the taxpayer does not furnish more than half the support of the son and even though the son has gross income of \$600 or more. If, however, the son is married at the close of the taxable year of the taxpayer, the taxpayer may not qualify as the head of the household by reason of the fact that the principal place of abode of the son is such household unless the taxpayer is entitled to an exemption for the son under section 25 (b), that is, unless the son receives more than half his support from the taxpayer, has gross income of less than \$600 (\$500 under the House bill) in the calendar year in which the taxable year of the taxpayer begins, and does not make a joint return with his spouse for his taxable year beginning in such calendar year.

A taxpayer whose status as head of a household depends upon the fact that such a household is the principal place of abode of a person described in subparagraph (B) cannot qualify as the head of a household unless such person, for the calendar year in which the taxable year of the taxpayer begins, received more than half of his support from the taxpayer, had gross income of less than \$600 in such calendar year, and, if married, has not made a joint return with his spouse for his taxable year beginning in such calendar year. Thus, a taxpayer who maintains a home for himself and his mother does not qualify as head of a household even though his home constitutes the principal place of abode of his mother unless he is entitled to claim his mother as a dependent under section 25 (b).

A taxpayer will not be considered as the head of a household unless such household actually constitutes his home for the taxable year and also constitutes the principal place of abode for such taxable year of another member of the household who meets the requirements of section 12 (c) (3) (A) or (B). If such other member of the household dies during the taxable year, the taxpayer will not be denied the benefits of this subsection if the taxpayer's household constituted the member's principal place of abode during the taxable year up to the date of his death. Section 12 (c) is intended to apply only where the taxpayer and such other members of the household live together in such household during the entire taxable year (except for temporary absences due to special circumstances). The fact that a child may be at college during the college term does not prevent the home of the taxpayer from also constituting the principal place of abode of the child. However, such home will not be considered as the principal place of abode where the child establishes a separate habitation and only returns for periodic visits. Similarly, such home will not be considered as constituting the principal place of abode of a dependent of the taxpayer who is supported by the taxpayer for a substantial part of the year in lodgings other than those occupied by the taxpayer even though such person may at various periods live in the household, unless the residence of the dependent in other lodgings is not permanent and is due to necessity such as illness. It is also intended that the household constitute the actual place of abode of the taxpayer and it is not sufficient that the taxpayer maintain the household without being an occupant thereof.

Paragraph (4) contains rules for ascertaining the status of the taxpayer and other persons for the purpose of determining whether the taxpayer is the head of a household.

Paragraph (4) (A) provides that a legally adopted child of a person shall be considered a child of such person by blood.

Paragraph (4) (B) provides that an individual who is legally separated from his spouse under a decree of divorce or separate maintenance shall not be considered as married.

Paragraph (4) (C) provides that a taxpayer whose spouse is a non-resident alien shall be considered as not married at the close of the taxable year for the purposes of considering whether the taxpayer is the head of a household. Thus, a taxpayer whose spouse is a non-resident alien (so that such taxpayer may not compute his tax under the income-splitting provisions of sec. 12 (d)) and who, if unmarried, would qualify as a head of a household may be considered as unmarried despite the fact that he has a spouse.

Paragraph (4) (D) provides that a taxpayer whose spouse (other than a spouse who was a nonresident alien) dies during the taxable year shall be considered as married at the close of his taxable year for the purposes of section 12 (c). Such taxpayer, accordingly, may not be considered as a head of a household for such taxable year.

A taxpayer who at any time during the taxable year is a nonresident alien shall in no case be considered as a head of a household.

Subsection (b) of this section of the bill (relating to computation of tax by collector) is added by your committee and does not appear in the bill as passed by the House.

Subsection (b) (1) of this section amends section 51 (f) (1) of the code, which provides that an individual entitled to elect to pay the tax imposed by supplement T whose gross income is less than \$5,000, and is entirely from wages, dividends, and interest (with not more than \$100 from sources other than wages) may elect to have his tax computed by the collector in lieu of making his own computation on the return. Your committee's amendment adds a sentence to provide that the collector's computation shall be made without regard to the taxpayer's status as head of a household.

Subsection (b) (2) of this section of the bill makes a corresponding amendment to section 402 of the code (relating to the manner and effect of an election to pay the tax imposed by supplement T) to provide that if a head of a household elects to have his tax computed by the collector pursuant to the provisions of section 51 (f), and thereby elects under section 51 (f) (4) to pay the tax imposed by supplement T, the tax imposed by section 400 is to be computed without regard to the status of the taxpayer as the head of a household.

Under these amendments if a person otherwise entitled to have his tax computed at the rates provided for a head of household elects to have his tax computed by the collector under section 51 (f) (1) the collector will use for purposes of computing the tax the tables provided under section 400 for a single person. Such election is made under present practice by taxpayers filing Form 1040A. Such a person filing Form 1040A and electing to have his tax computed by the collector will not, of course, be required to submit any information respecting his status as head of a household as that status will have no significance in the collector's computation of his tax as a single person.

SECTION 302. PAYMENTS TO BENEFICIARIES OF DECEASED EMPLOYEES

This section, for which there is no corresponding provision in the House bill, amends section 22 (b) (1) of the code (relating to exclusion of insurance proceeds from gross income) to provide for a limited exclusion for amounts paid by an employer to the beneficiaries of an employee by reason of the employee's death. The amendment, which is contained in a new subparagraph (B) added to section 22 (b) (1), would restrict the application of the provision to cases where the payments are made pursuant to an express contract under which the employer is legally obligated to pay the amounts to the designated beneficiaries of the employee. In addition, the aggregate of the amounts to be excluded by all the beneficiaries of the employee with respect to amounts paid by an employer of such employee may not exceed \$5,000. In cases where payments of the type described in section 22 (b) (2) (B) exceed \$5,000 and are made to more than one beneficiary of an employee, the exclusion shall be allocated among the beneficiaries in accordance with such regulations as the Secretary may prescribe.

Where the amounts are held by the employer under an agreement to pay interest thereon, the interest payments (as in the case of interest payments where insurance proceeds are held by the insurer) are includible in gross income.

The amendment made by this section is applicable with respect to taxable years beginning after 1950.

SECTION 303. JOINT AND SURVIVOR ANNUITIES

This section, for which there is no corresponding provision in the House bill, amends sections 113 (a) (5) and 22 (b) (2) of the code to provide that the basis of a survivor's interest in a joint and survivor annuity, the value of which is required to be included in the estate of a decedent annuitant dying after December 31, 1950, shall be considered to be acquired by "bequest, devise, or inheritance" and that such basis (that is, the value of such survivor's interest at the time of the decedent's death) shall be considered, for purposes of determining the amount to be included in the income of the survivor, to be the consideration paid for the survivor's annuity.

Under existing law, amounts received as an annuity purchased by the annuitant are in general taxed to the extent of 3 percent of the aggregate consideration paid for the annuity until the full consideration has been recovered tax-free, after which the entire amounts received are taxable. Section 22 (b) (2) (A). In the case of an annuity purchased by an employer for an employee under a qualified pension or profit-sharing plan for which the employer's contribution is deductible under section 23 (p) (1) (B), the consideration for the annuity is considered to be the amount contributed by the employee so that the employee on receipt of the annuity payments is taxed to the extent of 3 percent of his contributions until he has recovered tax-free the amount of his contributions after which the full amount of the annuity payments constitute taxable income. (Where the employer's contributions are included in the income of the employee in the year when made, that is, where the pension or profit-sharing

plan does not meet the requirements of sections 165 (a) (3), (4), (5), and (6) and the employee's rights under the contract are nonforfeitable, the amount of the employer's contributions is also considered to constitute part of the consideration paid.) Section 22 (b) (2) (B). In the case of a joint and survivor annuity, the aggregate consideration paid under the foregoing rules is considered to be the full amount paid for the entire annuity with the effect of taxing to the survivor annuitant 3 percent of such consideration (the amount paid for the annuity in cases under section 22 (b) (2) (A) and the contributions by the employee, or the employee and employer, in the case described in section 22 (b) (2) (B)) and with the further effect that where the consideration has been excluded from the income of the primary annuitant, the survivor is taxed on the full amount of payments received by him.

Under your committee's amendment to section 113 (a) (5), if the value of the survivor's interest is required to be included under applicable principles of law in the gross estate of the decedent annuitant (whether or not such estate exceeds \$60,000 so as to require the filing of an estate-tax return under sec. 821 (a) (1)), the basis of such interest to the survivor annuitant is considered (except to the extent to which sec. 811 (j), relating to optional valuation, is applicable) to be the value at the time of the decedent's death and, under your committee's amendment to section 22 (b) (2), such basis is considered to constitute the consideration paid for the survivor's annuity for purposes of determining the taxable amounts of the annuity payments received by her. Thus, if a survivor annuitant is to receive an annuity of x dollars annually, and if the value of such annuity would be required to be included in the gross estate of the decedent annuitant and if the basis of such annuity under section 113 (a) (5) would be \$5,000, the survivor is to include in his income each year an amount not in excess of \$150 (3 percent of \$5,000) and may exclude the balance of the amounts received until the amount of \$5,000 has been recovered tax-free.

SECTION 304. INCOME FROM DISCHARGE OF INDEBTEDNESS

Section 304 corresponds to sections 1 and 2 of H. R. 2416 as recently passed by the House of Representatives and provides for the permanent enactment of section 22 (b) (9) of the Internal Revenue Code and for the extension of section 22 (b) (10) of the code for a 3-year period. A discussion of these provisions is contained in part I of this report, pages 59 and 60.

SECTION 305. COMPENSATION OF CERTAIN MEMBERS OF THE ARMED FORCES

This section, for which there is no corresponding provision in the House bill, amends section 22 (b) (13) of the Internal Revenue Code, relating to the additional allowance for certain members of the Armed Forces.

Section 22 (b) (13) of existing law excludes from gross income certain compensation received for active service in the Armed Forces of the United States for any month during any part of which the

recipient served in a combat zone after June 24, 1950, and prior to January 1, 1952. Subsection (a) of this section extends this latter date from January 1, 1952, to January 1, 1954.

Subsection (a) of this section also extends the exclusion to certain compensation received for active service in the Armed Forces of the United States for any month during any part of which the recipient was hospitalized at any place as a result of wounds, disease, or injury incurred while serving in a combat zone after June 24, 1950, and prior to January 1, 1954, provided that during all of such month there are combatant activities in some combat zone.

Subsection (b) of this section amends section 22 (b) (13) (C) (iii) (relating to when service is performed in a combat zone) to provide that June 25, 1950, shall be considered the date of the commencing of combatant activities in the combat zone (Korea) designated in Executive Order 10195. The date June 25, 1950, used in this amendment refers to the date June 25, 1950, in the combat zone.

Subsection (c) of this section makes conforming amendments to section 1621 (a) (1) of the Internal Revenue Code, relating to the definition of the term "wages."

Subsection (d) of this section provides that the amendments made by subsections (a) and (b) shall be applicable to taxable years ending after June 24, 1950, and that the amendment made by subsection (c) shall be applicable with respect to wages paid after the tenth day following the date of enactment of the Act.

SECTION 306. INVOLUNTARY LIQUIDATION AND REPLACEMENT OF INVENTORIES

This section of the bill, for which there is no corresponding provision in the House bill, amends section 22 (d) (6) (F) (iii) (relating to the application of the rule with respect to replacements to liquidations of inventories occurring in taxable years ending after June 30, 1950, and prior to January 1, 1954) so as to vary the application of that rule in certain cases insofar as replacements made within taxable years ending prior to January 1, 1953, are concerned. In general, section 22 (d) (6) (C) provides that, for the purpose of section 22 (d) (6), goods reflecting an increase in inventory for a taxable year are considered, in the order of their acquisition, as having been acquired in replacement of the goods most recently liquidated and not previously replaced, whether or not the liquidation of such goods was involuntary. To the extent that the liquidation was involuntary, the benefits of the subsection are applicable. Under subparagraph (A) of section 22 (d) (6), tax benefits are granted with respect to the replacement of goods which were involuntarily liquidated in taxable years beginning after December 31, 1940, and prior to January 1, 1948, where such goods are replaced in a taxable year ending prior to January 1, 1953. Under subparagraph (F), similar benefits are provided with respect to goods which were involuntarily liquidated in taxable years ending after June 30, 1950, and prior to January 1, 1954, where replacement of such goods is made in a taxable year ending prior to January 1, 1956.

The operation under present law of the provisions of subparagraph (C), dealing with replacements, insofar as involuntary liquidations of goods of the same class subject to the provisions of both subparagraphs (A) and (F) are concerned, is that the involuntary liquidations subject

to the provisions of subparagraph (F) must be replaced before the involuntary liquidations subject to the provisions of subparagraph (A). To the extent, therefore, that goods of the same class as those which were liquidated in the earlier period are involuntarily liquidated in the later period, it is apparent that the operation of the present replacement rule requires that the replacement of all such liquidations must be made in taxable years ending prior to January 1, 1953, in order that the tax benefits of subparagraph (A) may be available with respect to the earlier liquidations.

Under the amendment made by this section of the bill, the application of the general replacement rule provided in subparagraph (C) is modified in such a way that, in any case involving involuntary liquidations of goods of the same class subject to the provisions of both subparagraphs (A) and (F), the involuntary liquidations of such goods subject to the provisions of subparagraph (F) shall, for the purpose of replacements made in taxable years ending prior to January 1, 1953, be considered as having occurred prior to the involuntary liquidations of such goods subject to the provisions of subparagraph (A).

The amendment made by this section is not applicable to voluntary liquidations occurring in the period to which subparagraph (F) is applicable.

The amendment of section 22 (d) (6) (F) (iii) made by this section also corrects an error in cross-reference which was previously contained in that clause.

Subsection (b) of the section provides that the amendment made by the section shall be applicable with respect to taxable years ending after June 30, 1950.

SECTION 307. MEDICAL EXPENSES

This section of the bill, for which there is no corresponding provision in the House bill, amends section 23 (x), relating to the deduction of medical, dental, etc., expenses. The effect of the amendment is to remove the 5-percent limitation with respect to medical expenses paid during the taxable year, not compensated for by insurance or otherwise, for the care of a taxpayer or his spouse if either the taxpayer or his spouse has attained the age of 65 before the close of the taxable year. The limitation with respect to the maximum deduction allowable under section 23 (x) remains unchanged.

The determination of whether an individual is married at any time during the taxable year shall be made in accordance with the provisions of section 51 (b) (5).

Application of section 23 (x) as amended to the following examples illustrates the effect of the amendment.

Example 1.—A, who is 70 years of age on February 22, 1951, files his income-tax return on March 15, 1952 (calendar-year basis). During the calendar year 1951, A pays the following percentages of his adjusted gross income as specified: (a) 3 percent for the medical care of himself and his spouse, and (b) 2 percent for the medical care of his dependent son. A would be allowed to deduct an amount equal to 3 percent of his adjusted gross income, subject, however, to the maximum allowable under section 23 (x). Under existing law, A would not be allowed any deduction in this case.

Example 2.—Assuming the percentages for medical care specified in (1) are, respectively, 5 and 5, A would be allowed to deduct an amount equal to 5 percent of his adjusted gross income, subject, however, to the maximum allowable under section 23 (x). Under existing law, A would be allowed to deduct an amount equal to 5 percent of his adjusted gross income, subject to the same maximum.

In determining the amount of medical expenses deductible under section 23 (x) (2) (B), the amount deductible under section 23 (x) (2) (A) shall not be included for the purpose of meeting the 5-percent limitation.

This amendment is applicable to taxable years beginning after December 31, 1950.

SECTION 308. STANDARD DEDUCTION

This section, for which there is no corresponding provision in the House bill, amends section 23 (aa) of the Internal Revenue Code, relating to the optional standard deduction for individuals.

Under existing law, an election to take or not to take the standard deduction for any taxable year is irrevocable after the time prescribed for filing the return for such year. Subsection (b) of this section adds paragraph (7) to section 23 (aa) to expressly provide that, under regulations prescribed by the Secretary, an election to take or not to take the standard deduction for any taxable year may be changed after the time prescribed for filing the return for such year.

If, however, the spouse of the taxpayer filed a separate return for any taxable year that corresponds, for the purpose of paragraph (4) of section 23 (aa), to the taxable year of the taxpayer, the change may not be made unless, under regulations prescribed by the Secretary, (1) the spouse makes a change of election in such separate return with respect to the standard deduction consistent with the change of election sought by the taxpayer, and (2) the taxpayer and his spouse file with the Secretary a consent in writing to the assessment, within such period as may be agreed upon with the Secretary, of any deficiency of either, to the extent attributable to such change of election even though at the time of the filing of such consent the assessment of such deficiency would otherwise be prevented by the operation of any law or rule of law.

A change of election for any taxable year shall not be permitted, however, if the tax liability of the taxpayer for the taxable year, or of the taxpayer's spouse for the taxable year corresponding, for the purposes of section 23 (aa) (4), to the taxable year of the taxpayer, has been compromised under the provisions of section 3761.

Although it is not expressly so stated, the change for any taxable year must be made within the period of time when a claim for credit or refund must be filed for such year in order for the taxpayer to receive a credit or refund attributable to such change since such period is not extended by this section.

Subsection (a) of this section amends paragraph (3) of section 23 (aa) to conform that paragraph to paragraph (7) of such section as added by subsection (b) of this section of the bill.

Subsection (c) of this section provides that the amendments made by this section shall be applicable only with respect to taxable years beginning after December 31, 1949.

SECTION 309. EXPENDITURES IN THE DEVELOPMENT OF MINES

This section corresponds to section 302 of the bill as passed by the House. Your committee has added a provision allowing the taxpayer an election to deduct certain expenditures for the development of a mine or other natural deposit (other than an oil or gas well) either in the taxable year paid or incurred or ratably during the taxable years in which the produced ores or minerals are sold. Your committee has also made technical changes in the section.

Under existing law all expenditures in excess of net receipts from ores or minerals sold are required to be charged to capital account while a mine is in the development stage and are to be recovered through depletion. However, after a mine has reached the producing status, development costs, whether or not in excess of net receipts from ores or minerals sold, are not treated as capital charges recoverable through depletion but as operating expenses deductible in the year in which the produced ores or minerals benefited thereby are sold.

Section 309 of the bill amends section 23 of the code by adding a new subsection (cc). The corresponding provisions of the House bill would have inserted a new subparagraph (D) to section 23 (a) (1).

Paragraph (1) of subsection (cc) provides that all expenditures for the development of a mine or other natural deposit (other than an oil or gas well) paid or incurred after December 31, 1950, and after the existence of ores or minerals in commercially marketable quantities has been disclosed shall be deductible, except as otherwise provided in paragraph (2) of this subsection. These expenditures shall be deducted whether paid or incurred by the taxpayer while the mine or deposit is in the development or while in the producing status. Paragraph (1) further provides that this new subsection shall have no application to expenditures for the acquisition or improvement of property of a character which is subject to the allowance for depreciation provided in section 23 (l). However, allowances for depreciation shall be considered for the purpose of this new subsection as expenditures.

During the development stage, this new subsection is applicable to all expenditures of the taxpayer, unless otherwise excluded herein. However, after the producing status is reached, it is only those extraordinary expenditures which under existing law must be deferred and deducted ratably as the produced ores or minerals benefited thereby are sold which are affected by this subsection. The determination of when a mine or deposit passes from one stage into another shall be made under existing law.

Paragraph (2) of subsection (cc) allows the taxpayer to elect, in accordance with regulations, to treat such expenditures, whether paid or incurred during or after the development stage, in the same manner as such expenditures are now treated after the mine or deposit has reached the producing status. That is, such expenditures may be treated as deferred expenses and shall be deductible on a ratable basis as the units of produced ores or minerals benefited by such expenditures are sold. While the mine or deposit is in the development stage the election under paragraph (2) applies only to expenditures which are in excess of the net receipts during the taxable year

from the ores or minerals produced from the mine or deposit. Accordingly, the amount of such expenditures which is not in excess of such net receipts for the taxable year while the mine or deposit is in the development stage shall be deductible in full. The election under this paragraph shall be applicable to the total amount of such expenditures, or of such excess, as the case may be, with respect to each mine or deposit and shall be irrevocable for the taxable year for which it is made.

This amendment is applicable to a taxpayer who has paid or incurred expenditures of the type described therein and accordingly has no application to that part of the cost of a mine or deposit attributable to such expenditures when acquired by purchase. Where a taxpayer has paid or incurred expenditures described in subsection (cc), has made an election under paragraph (2), and has thereafter leased the developed property retaining a royalty interest therein, such a taxpayer shall be allowed the ratable deduction provided in paragraph (2).

In order to determine the amount of the annual deduction allowable under paragraph (2), it will be necessary to estimate the number of units, benefited by such expenditures, in the reserve of the mine or deposit at the close of the taxable year for which an election is made. This estimate is, of course, subject to revision in the event it is ascertained as the result of operation or development work that the remaining recoverable units are materially greater or less than the number remaining from a prior estimate. As these units are produced and sold, the amount of the development costs to be deducted will be an amount which is in the same proportion to the total of such costs which are treated as deferred expenses as the number of units sold is to the number of units in the reserve.

In computing the amount of percentage depletion allowable for any taxable year, the deductions allowable for such year under paragraph (1) or (2) of subsection (cc) shall be taken into account in determining the taxpayer's net income for the purpose of the 50 percent limitation provided in section 114 (b) (4) (A) of the code.

Paragraph (3) provides that the amount of the expenditures which are to be deferred and deducted ratably under the election provided in paragraph (2) shall be taken into account in determining the cost of the mine or deposit for the purpose of sections 111, 112, and 113. However, no amount of such deferred expense shall be included in the adjusted basis of the property for the purpose of computing a deduction for cost depletion under section 114.

Subsection (b) of section 309 of the bill adds a new subparagraph (J) to section 113 (b) (1) (relating to adjusted basis of property) which provides that the basis of mines or natural deposits shall be adjusted for amounts allowed as deductions under section 23 (cc) (2) and resulting in a reduction of the taxpayer's taxes under chapter 1 of the code, but not less than the amounts allowable under such section for the taxable year and prior years. Accordingly, if a taxpayer purchases undeveloped mining property for \$1,000,000 and at the close of the development stage has incurred development costs in excess of net receipts of \$9,000,000, and has made the election with respect to such costs under section 23 (cc) (2) the basis of such property at such time for computing gain or loss will be \$10,000,000. Assuming that the taxpayer in this example has operated the mine for several years and has deducted allowable percentage depletion in the amount of

\$2,000,000 and has deducted, pursuant to an election under section 23 (cc) (2), allowable deferred development expenditures of \$2,000,000, the basis of the property in the taxpayer's hands for purposes of determining gain or loss if sold will be \$6,000,000.

Subsection (c) of section 309 makes a technical amendment to section 24 (a) (2) of the code (relating to items not deductible) in order to remove any doubt as to the deductibility under section 23 (cc) of the expenditures incurred in the development of a mine or deposit.

The amendments made by this section of the bill shall be applicable to taxable years ending after December 31, 1950.

SECTION 310. GROSS INCOME OF DEPENDENTS OF TAXPAYER

Under present law the \$600 exemption for a dependent of the taxpayer may not be allowed if the gross income of the dependent for the calendar year in which the taxable year of the taxpayer begins is \$500 or more. Section 310 (a) of the bill, for which there is no corresponding provision in the House bill, amends section 25 (b) (1) (D) of the Internal Revenue Code to provide that the exemption may be allowed if the gross income of the dependent is less than \$600, instead of \$500, as under present law. The amendment made by section 310 (a) is to be applicable with respect to taxable years beginning after December 31, 1950.

SECTION 311. CREDIT FOR DIVIDENDS RECEIVED

This section, for which there is no corresponding provision in the House bill, amends section 26 (b) and section 119 (a) (2) (B) of the Internal Revenue Code.

Under existing law the credit allowed corporations for dividends received is not permitted with respect to dividends received from a foreign corporation, whether or not such foreign corporation has been subjected to United States income tax on its earnings or profits.

This section amends section 26 (b) of the code so as to provide for a dividends received credit in the case of dividends received from a foreign corporation which is subject to income tax under chapter 1 of the code if, for an uninterrupted period of not less than 36 months ending with the close of the foreign corporation's taxable year preceding the declaration of the dividends, the foreign corporation has been engaged in trade or business within the United States and if, during such period, 50 percent or more of the gross income of the foreign corporation has been derived from sources within the United States. If the foreign corporation has been in existence less than 36 months at the close of the taxable year preceding the declaration of the dividends, then the applicable period to be taken into consideration in lieu of the uninterrupted period of 36 or more months is the entire period the foreign corporation has been in existence. The dividends received credit here provided will not be allowed in the case of dividends received from a foreign personal holding company amounts included in gross income under section 337 as dividends from a foreign personal holding company (as defined in section 331 of the code).

An uninterrupted period which meets the two tests (gross income and carrying on trade or business) may start at a date later than the

date on which the company first commenced an uninterrupted period of doing business in the United States. If a corporation has carried on business in the United States for an uninterrupted period of 20 years prior to the close of the taxable year preceding the declaration of the dividend, and its gross income from United States sources during such period was only 40 percent of its total gross income during the 20-year period, but during the last 15 years of the 20-year period the gross income from United States sources constituted 50 percent of its total gross income during such last 15 years, the uninterrupted period which meets both tests would begin at the beginning of the 15-year period.

The amount of the credit to be allowed is 85 percent of the amount received as dividends from earnings or profits accumulated by the foreign corporation during the applicable period, that is, the uninterrupted period of 36 or more months (or the period permitted in lieu thereof when such corporation has been in existence less than 36 months) throughout which it has met the prescribed trade or business and percentage of gross income tests. In no case, however, will the amount of credit allowed be in excess of an amount which bears the same ratio to 85 percent of the amount received as dividends from earnings or profits accumulated by the foreign corporations during the applicable period as the normal-tax net income of the foreign corporation for such applicable period from sources within the United States bears to its entire normal-tax net income for such applicable period.

Since section 119 (a) (2) (B) of the code now provides that, for the purpose of section 131, dividends from a foreign corporation shall be treated as income from sources without the United States, a double benefit would (in the absence of an appropriate amendment to section 119) be available in some instances to a domestic corporation receiving dividends from a foreign corporation, in that the substantive amendment made by this section to section 26 (b) of the code would permit a dividends received credit to the domestic corporation with respect to the same dividends through the receipt of which under section 131 of the code the domestic corporation is entitled to a foreign tax credit.

In order to restrict the amount of foreign tax credit allowable with respect to dividends of foreign corporations allocable to income from sources outside the United States, this section amends section 119 (a) (2) (B) of the code so as to provide that, for the purpose of section 131, dividends from a foreign corporation shall be treated as income from sources without the United States only to the extent such dividends exceed the amount which is one hundred eighty-fifths of the amount of the credit allowable under section 26 (b) (3) in respect of such dividends. Under this formula, therefore, the portion of the dividends paid from earnings or profits derived from sources within the United States cannot be used as the basis of a foreign tax credit if such portion is subject to the dividends received credit rule of section 26 (b) (3).

The closing provisions of section 26 (b) of the code, which now follow immediately after paragraph (2) thereof, will be equally applicable to the provisions of paragraph (3), as added by this section. The amendments made by this section shall be applicable only with respect to taxable years beginning after December 31, 1950.

SECTION 312. JOINT RETURN AFTER FILING
SEPARATE RETURN

This section, for which there is no corresponding provision in the House bill, adds new subsection (g) to section 51 of the code to permit the filing of a joint return by a husband and wife in certain cases even though separate returns have already been filed for the taxable year.

Paragraph (1) of section 51 (g) provides that an individual who has filed a separate return for a taxable year for which a joint return could have been made by him and his spouse under section 51 (b) may make a joint return with his spouse for such taxable year even though the time prescribed by law for filing the return for the taxable year has expired. The joint return filed pursuant to section 51 (g) shall constitute the return of the husband and wife for such year, and all payments, credits, refunds, or other repayments, made or allowed with respect to the separate return of either spouse previously filed, are to be taken into account in determining the extent to which the tax on the joint return has been paid.

For the purpose of section 51 (g), the determination of whether an individual is married at any time during a taxable year shall be made in accordance with the provisions of section 51 (b) (5). The fact that the taxpayer and his spouse are legally separated after the filing of separate returns for the taxable year shall not deprive them of their right to file a joint return for the taxable year pursuant to section 51 (g).

Paragraph (2) of section 51 (g) provides that the following payments must be made at or before the time of the filing of the joint return if a joint return is to be filed pursuant to such subsection:

(A) All amounts previously assessed with respect to either spouse for such taxable year;

(B) All amounts shown as the tax by either spouse upon his separate return for such taxable year; and

(C) Any amount determined by the Commissioner, at the time of the filing of the joint return, as a deficiency with respect to either spouse for such taxable year if, prior to the filing of the joint return, a notice under section 272 (a) of such deficiency has been mailed.

Paragraph (3) of section 51 (g) provides that a joint return cannot be made pursuant to such subsection—

(A) After the expiration of 3 years from the last day prescribed by law for filing the return for such taxable year determined without regard to any extension of time granted to either spouse;

(B) After a notice of deficiency under section 272 (a), with respect to the taxable year, has been mailed to either spouse if the spouse files a petition with respect to such notice with the Tax Court within the time prescribed in section 272 (a), that is, within the 90-day period after the mailing of the notice;

(C) After either spouse has commenced a suit in any court for the recovery of any part of the tax for such taxable year; or

(D) After either spouse has entered into a closing agreement under section 3760 with respect to such taxable year, or after any civil or criminal case arising against either spouse with respect to such taxable year has been compromised under section 3761.

Paragraph (4) of section 51 (g) provides that if a joint return is made under such section, any election (other than the election to file a separate return) made by either spouse in his separate return for the taxable year with respect to the treatment of any income, deduction, or credit of such spouse shall not be changed in the making of the joint return where such election would have been irrevocable if the joint return had not been made. Thus, if one spouse has made an irrevocable election to adopt and use the elective inventory method under section 22 (d), this election may not be changed upon making the joint return under section 51 (g).

Paragraph (5) of section 51 (g) provides that, if a joint return is made under such section after the death of either spouse, such return with respect to the decedent can be made only by his executor or administrator. Thus, in the case where no executor or administrator is appointed no joint return can be made under section 51 (g).

Paragraph (6) of section 51 (g) provides for additions to the tax in certain cases where the amount shown as the tax by the taxpayer and his spouse on the joint return made under such subsection exceeds the aggregate of the amounts shown as tax on the separate returns of the spouses. If any part of such excess is attributable to negligence, or intentional disregard of rules and regulations, at the time of the making of such separate return, but without any intent to defraud, 5 percent of such excess is to be assessed, collected, and paid in the same manner as if it were a deficiency. If any part of such excess is attributable to fraud at the time of the making of such separate return with intent to evade tax, 50 percent of such excess shall be assessed, collected, and paid in the same manner as if it were a deficiency. This addition is in lieu of the 50 percent addition to the tax provided in section 3612 (d) (2).

Paragraph (7) of section 51 (g) provides the rules for the application of sections 275 and 291, relating, respectively, to the period of limitations upon assessment and collection, and to delinquent returns. Under such rules, a joint return made under such section shall be deemed to have been filed—

(A) On the date the last separate return of either spouse was filed for the taxable year, but not earlier than the last date prescribed by law for filing the return of either spouse, where both spouses filed separate returns prior to making the joint return under section 51 (g);

(B) On the date of the filing of the separate return, but not earlier than the last day prescribed by law for the filing of such return, where only one spouse is required to file a return prior to the making of the joint return under section 51 (g); or

(C) On the date of the filing of the joint return under section 51 (g), where only one spouse filed a separate return prior to the making of the joint return under such subsection and the other spouse had gross income of \$600 or more for the taxable year.

For the purpose of section 51 (g) (7), the last date prescribed by law for filing the return for the taxable year shall include any extension of time granted to either spouse.

Paragraph (8) of section 51 (g) provides that, for the purpose of section 322, relating to refunds and credits, a joint return made under section 51 (g) shall be deemed to have been filed on the last date prescribed by law for filing the return for such taxable year and that

such date is to be determined without regard to any extension of time granted to either spouse.

Paragraph (9) of section 51 (g) provides that, in the case of a joint return made under such section, the period of limitations provided in sections 275 and 276 shall include 1 year immediately after the date of the filing of such joint return. The expiration of the 1 year is to be determined without regard to the rules provided in section 51 (g) (7), relating to the application of section 275 and 291 with respect to a joint return made under section 51 (g).

Paragraph (10) of section 51 (g) provides that, for the purposes of section 3809 (a), relating to criminal penalties in the case of a fraudulent return, the term "return" includes a separate return filed by a spouse for the taxable year for which a joint return is subsequently made under section 51 (g).

Subsection (b) of section 312 of the bill provides that section 51 (g), as added by subsection (a) of section 312, shall be applicable only with respect to taxable years beginning after December 31, 1950.

SECTION 313. MUTUAL SAVINGS BANKS, BUILDING AND LOAN ASSOCIATIONS, AND COOPERATIVE BANKS

Section 313, for which there is no corresponding provision in the House bill, relates to income-tax treatment of mutual savings banks, building and loan associations, and cooperative banks, and is applicable only with respect to taxable years beginning after December 31, 1951.

Subsection (a) repeals section 101 (2) of the code (relating to exemption from tax of mutual savings banks).

Subsection (b) amends section 101 (4) of the code to repeal the exemption from tax of building and loan associations and cooperative banks. Credit unions without capital stock organized and operated for mutual purposes and without profit will remain tax-exempt under section 101 (4) of the code.

Subsection (c) amends section 5 (h) of the Home Owners Loan Act of 1933 (48 Stat. 132; 12 U. S. C., sec. 1464 (h)), to repeal the exemption of Federal savings and loan associations from Federal income tax in the case of taxable years beginning after December 31, 1951.

Subsection (d) amends section 23 (k) (1) (relating to deduction from gross income of bad debts) to provide in the case of certain organizations heretofore tax-exempt that the reasonable addition to a reserve for bad debts provided for under such paragraph shall be determined with due regard to the amount of the taxpayer's surplus or bad debt reserve existing at the close of December 31, 1951. This provision applies only to those organizations heretofore tax-exempt under section 101 (2), (4), and (15) who are denied exemption by the amendments made by this section of the bill; that is, it applies to a mutual savings bank not having capital stock represented by shares, a domestic building and loan association (see subsection (h) for definition), and a cooperative bank without capital stock organized and operated for mutual purposes and without profit. These organizations will all be included in the definition of the term "bank" under section 104 (a) of the code after its amendment by subsection (g). Each of these organizations may, subject to approval by the Secretary, select either the deduction method or the reserve method for bad debts on its first return of income. If the method selected is approved, it must be

followed in returns for subsequent years, except as permission may be granted by the Secretary to change to another method. It is contemplated that in fixing rules for the determination of reasonable additions to a reserve for bad debts, all appropriate factors will be taken into account including the amount of the taxpayer's surplus and bad debt reserves at the close of December 31, 1951, reserve requirements of the Federal Deposit Insurance Corporation, and, if a moving average experience factor is used in determining the ratio of losses to outstanding loans, an appropriate period of experience. In the latter connection this will be an extended period of experience similar to that used in the case of commercial banks. Your committee believes a 25-year period should be used, in lieu of the 20-year period used for commercial banks, if such a period shows that larger bad debt reserves are required.

Subsection (e) amends section 23 (r) (relating to the deduction from gross income of certain dividends paid by banking corporations) to provide that in the case of mutual savings banks, cooperative banks, and domestic building and loan associations (for definition of domestic building and loan associations see section 3797 (a) (19) as added by section 313 (h) of the bill), there shall be allowed as deductions in computing net income any amounts paid to depositors or credited to the accounts of depositors as dividends on their deposits or withdrawable accounts.

Subsection (f) amends section 23 of the code (relating to deductions from gross income) to provide a deduction for repayment to the United States of certain loans made by the United States prior to September 1, 1951, by a mutual savings bank not having capital stock represented by shares. It provides that amounts paid by the taxpayer during the taxable year in repayment of loans made prior to September 1, 1951, by the United States or any agency or instrumentality thereof which is wholly owned by the United States shall be allowed as a deduction in computing net income of the taxpayer. An example for this purpose of an agency or instrumentality wholly owned by the United States would be the Reconstruction Finance Corporation.

Subsection (g) amends section 104 (a) of the code (defining the term bank) to include, within the definition of bank, a domestic building and loan association.

Subsection (h) amends section 3797 (a) of the code (relating to definitions for the purpose of the Internal Revenue Code) to define the term "domestic building and loan association" to mean a domestic building and loan association, a domestic savings and loan association, and a Federal savings and loan association, substantially all the business of which is confined to making loans to members. This amendment is of a clarifying nature and is not intended to change the existing meaning of a domestic building and loan association.

SECTION 314. INCOME-TAX TREATMENT OF EXEMPT COOPERATIVES

Subsection (a) of section 314, for which there is no corresponding provision in the House bill, relates to the income-tax treatment of cooperatives. Subsection (a) of section 314 deals only with tax-exempt cooperatives and is applicable only with respect to taxable

years beginning after December 31, 1951. Subsection (a) amends section 101 (12) of the code to bring the provisions presently contained therein under a subparagraph numbered (A) and to add after such subparagraph a new subparagraph numbered (B). Subparagraph (B) of section 101 (12) provides that an organization exempt from taxation under the provisions of subparagraph (A) shall be subject to the normal tax imposed on corporations by section 13 and to the surtax imposed on corporations by section 15 of the code, or to the alternative tax provided by section 117 (c) (1). However, in computing the net income of such an exempt cooperative for the purpose of such taxes there is allowed (in addition to the other deductions allowable under sec. 23 of the code) as deductions from gross income (i) amounts paid as dividends during the taxable year upon capital stock, and (ii) amounts allocated during the taxable year to patrons with respect to income not derived from patronage (whether or not such income was derived during such taxable year) whether paid in cash, merchandise, capital stock, revolving fund certificates, retain certificates, certificates of indebtedness, letters of advice, or in some other manner that discloses to each patron the dollar amount allocated to him. By the terms of section 101 (12) (A), the amounts which may be paid on capital stock is limited to the legal rate of interest in the State of incorporation of the cooperative or 8 percent per annum, whichever is greater, on the value of the consideration for which the stock was issued. The amounts covered in (ii), above, refer to items of incidental income which a cooperative may realize and still retain its exemption, such as rental income from lease of premises to the United States Government. Since such income is not derived from patronage, allocation thereof to members, though based on patronage, are not true patronage dividends. However, a deduction is allowed for amounts of such nonpatronage income, if allocated and paid to patrons on the basis of patronage. Such payments do not have to be made in cash but may be made in any manner that discloses to each patron the dollar amount allocated to him. If nonpatronage income is not allocated and paid to patrons according to patronage, the allocation or payment of such income to members or patrons would not be deductible under (ii).

The amounts for which deductions are allowed under section 101 (12) (B) (i) and (ii), as already indicated, are not patronage dividends as such term is commonly understood. Patronage dividends, rebates, or refunds are taken into account in computing the net income of a cooperative subject to 101 (12) (B) in the same manner as in the case of a cooperative organization not exempt under section 101 (12) (A). Patronage dividends, rebates, or refunds made after the close of the taxable year and on or before the 15th day of the third month following the close of such year are to be considered as made on the last day of taxable year to the extent they are attributable to patronage occurring before the close of such year.

It is to be noted that in computing (under sec. 122 of the code) the net operating loss deduction provided by section 23 (s) of the code, not only will the amounts allowable as deductions under section 101 (12) (B) (i) and (ii) of the code as amended by the bill be taken into account but such computation will also reflect the patronage dividends, refunds, and rebates made by the cooperative which are taken into account in computing net income.

Subsection (b) of section 314 amends section 101 of the Internal Revenue Code to provide that organizations described therein are exempt from tax except to the extent provided in paragraph (12) (B) of such section, and that, notwithstanding the fact that such organizations are subject to tax under paragraph (12) (B) of such section, they are still to be considered exempt from income tax for the purpose of any laws which refer to an organization exempt from income tax. Accordingly, such code provisions as section 26 (b) (credits for dividends received from a domestic corporation which is subject to tax) and section 141 (dealing with consolidated returns) do not apply to co-operatives taxable under section 101 (12) (B).

Subsection (c) of section 314 amends section 148 of the code (relating to return of information by corporations) to add at the end thereof a new subsection (f) entitled "Patronage Dividends." Such subsection provides that any corporation (whether or not exempt from tax) allocating amounts as patronage dividends, rebates, or refunds (whether in cash, merchandise, capital stock, revolving-fund certificates, retain certificates, certificates of indebtedness, letters of advice, or in some other manner that discloses to each patron the amount of such dividend, refund, or rebate) shall render a correct return stating (1) the name and address of each patron to whom it has made such allocations amounting to \$100 or more during the calendar year, and (2) the amount of such allocations to each patron. If required by the Secretary, any such corporation (whether or not tax-exempt) shall render a correct return of all patronage dividends, rebates, or refunds made during the calendar year to its patrons, regardless of the amount or form thereof. The amendments made by subsection (c) of section 314 apply with respect to the calendar year 1951 and subsequent calendar years.

Subsection (d) of section 314 provides that in the event any law (other than secs. 143 and 144 of the Internal Revenue Code) enacted by Congress requires the withholding at source of tax on corporate dividends paid in cash, the requirement of withholding and the provisions of such law shall extend to patronage dividends, rebates, and refunds (whether paid in cash, merchandise, capital stock, revolving-fund certificates, retain certificates, or otherwise) in the same manner and to the same extent as is provided in such law with respect to corporate dividends paid in cash.

SEC. 315. SURTAX ON CORPORATIONS IMPROPERLY ACCUMULATING SURPLUS

This section, for which there is no corresponding provision in the House bill, amends section 102 (d) (1), which defines the term 'section 102 net income.' The amendment adds a new subparagraph (D) which provides that the excess of the net long-term capital gain for the taxable year over the net short-term capital loss for such year, minus the taxes imposed by chapter 1 of the code attributable to such excess, shall be deducted from net income in computing section 102 net income. The taxes attributable to the excess of the net long-term capital gain over the net short-term capital loss shall be an amount equal to the difference between (1) the taxes imposed by chapter 1 of the code, except section 102, and (2) such taxes computed without including such excess in net income. The amendment made

by this section is applicable only with respect to taxable years beginning after December 31, 1950.

SECTION 316. ELECTION AS TO RECOGNITION OF GAIN IN CERTAIN CORPORATE LIQUIDATIONS

This section, for which there is no corresponding provision in the House bill, amends section 112 (b) (7) of the code (relating to election as to recognition of gain in certain corporate liquidations), which section is applicable under existing law only in cases in which the liquidation was pursuant to a plan adopted after December 31, 1950, and the transfer of all the property under the liquidation occurred within one calendar month in 1951. The amendment made by this section extends section 112 (b) (7) for an additional year and makes it applicable to cases in which the liquidation is pursuant to a plan adopted after December 31, 1950, and the transfer of all the property under the liquidation occurs within one calendar month in 1951 or 1952. The effect of the section is, in general, to postpone the recognition of that portion of a qualified electing shareholder's gain on the liquidation which would otherwise be recognized and which is attributable to appreciation in the value of certain corporate assets unrealized by the corporation at the time such assets are distributed in complete liquidation.

Since the only amendment made by your committee to section 112 (b) (7) is the insertion of the date 1952 after the date 1951 where it now appears in subparagraph (A) (ii), the date August 15, 1950, is still applicable in subparagraphs (B), (E), and (F) of that section (relating to the definition of excluded corporations and relating to the recognition of gain to the shareholders from the receipt of money or of stock or securities acquired by the liquidating corporation after such date).

This section also makes a technical amendment to section 113 (a) (18) of the code, in order to make that section applicable to property acquired by an electing shareholder in a liquidation carried out under the provisions of section 112 (b) (7), whether before or after its amendment by this section.

The amendments made by this section are applicable to taxable years ending after December 31, 1951.

SECTION 317. CERTAIN DISTRIBUTIONS OF STOCK ON REORGANIZATION

This section amends sections 112 (b) and 113 (a) of the code to provide for the tax treatment of certain distributions of stock on reorganization. For discussion of these provisions, see page 57 in part I of this report.

SECTION 318. GAIN FROM SALE OR EXCHANGE OF TAX- PAYER'S RESIDENCE

This section, which corresponds to section 303 of the bill as passed by the House, adds a new subsection (n) to section 112 of the code, which relates to the recognition of gain or loss. Paragraph (1) of the new subsection provides, in general, that any gain from a sale of

property used by the taxpayer as his principal residence (referred to hereinafter as the "old residence") will not be recognized if the taxpayer within a period beginning 1 year prior to the date of such sale and ending 1 year after such date purchases property and uses it as his principal residence (referred to hereinafter as the "new residence") except to the extent that the taxpayer's selling price of the old residence exceeds the taxpayer's cost of purchasing the new residence. Such nonrecognition of gain is mandatory. The new subsection does not change the treatment under existing law of loss from the sale or exchange of the taxpayer's residence.

Whether or not property is used by the taxpayer as his residence, and whether or not property is used by the taxpayer as his principal residence (in the case of a taxpayer using more than one place of residence), depends upon all of the facts and circumstances in each individual case, including the bona fides of the taxpayer. The term "residence" is used in contradistinction to property used in trade or business and property held for the production of income. Nevertheless, the mere fact that the taxpayer temporarily rents out either the old or the new residence may not, in the light of all of the facts and circumstances in the case, prevent the gain from being not recognized. For example, if the taxpayer purchases his new residence before he sells his old residence, the fact that he rents out the new residence during the period before he vacates the old residence will not prevent the application of this subsection.

Where part of a property is used by the taxpayer as his principal residence and part is used for business purposes or in the production of income (as in the case where a part of the building in which the taxpayer resides is used as a store or office or is rented or in the case of a farm property) allocation must be made to determine the extent to which the new subsection applies. If the old residence is used only partially for residential purposes, a proper allocation of the gain and of the selling price is necessary; only that part of the gain allocable to the residential portion may be not recognized under the new subsection and only so much of the selling price as is allocable to such part of the property need be reinvested in the new residence. If the new residence is used only partially for residential purposes, then only so much of its cost as is allocable to the residential portion is counted as reinvestment for the purpose of the new subsection.

Property used by the taxpayer as his principal residence may include a houseboat or a house trailer. Paragraph (5) provides that the taxpayer's principal residence may also include stock held by a tenant-stockholder in a cooperative apartment corporation as those terms are defined in section 23 (z) (2) of the code, if the apartment which the taxpayer is entitled to occupy as such stockholder is used by him as his principal residence. Property used by the taxpayer as his principal residence does not include personal property such as a piece of furniture, a radio, etc., which, in accordance with the applicable local law, is not a fixture.

Paragraph (2) (A) provides that an exchange by the taxpayer of his residence for other property shall be considered, for the purposes of the new subsection, to be a sale. Paragraph (2) (B) provides that where the taxpayer's residence (as a result of its destruction in whole or in part, theft or seizure) is compulsorily or involuntarily converted into property or money, the destruction, theft or seizure shall also be

considered as a sale. Although paragraph (2) (B) does not specifically provide that an exercise of the power of requisition or condemnation shall be considered a sale, such events are nevertheless sales under the principle of *Hawaiian Gas Products, Ltd. v. Commissioner* (126 F., (2d) 4, cert. denied, 317 U. S. 653).

For the purposes of this subsection, the acquisition of property which is used as the taxpayer's principal residence upon an exchange of property by the taxpayer (under par. (2) (A)), or upon the compulsory or involuntary conversion of property used by the taxpayer as his principal residence as the result of its destruction, in whole or in part, theft, seizure, requisition, or condemnation (under par. (2) (B)), and the construction or reconstruction of a residence (under par. (2) (D)), shall be considered to be a purchase. The mere improvement of a residence, not amounting to reconstruction, does not constitute a purchase of such residence.

The words "taxpayer's selling price of the old residence" include the amount of any mortgage, trust deed, or other indebtedness to which such property is subject in the hands of the purchaser whether or not the purchaser assumes such indebtedness. Such words also include the face amount of any liabilities of the purchaser which are part of the consideration for the sale. Commissions and other selling expenses paid or incurred by the taxpayer on the sale of the old residence are not to be deducted or taken into account in determining the "taxpayer's selling price of the old residence." In the case of an exchange or conversion which is considered as a sale under this subsection, the amount realized by the taxpayer upon such exchange or conversion shall be considered (under par. (2) (C)) to be the "taxpayer's selling price of the old residence."

The words "taxpayer's cost of purchasing the new residence" also include such indebtedness to which the property purchased is subject at the time of purchase whether or not assumed by the taxpayer (including purchase-money mortgages, etc.) and the face amount of any liabilities of the taxpayer which are part of the consideration for the purchase. Commissions and other purchasing expenses paid or incurred by the taxpayer on the purchase of the new residence are to be included in determining the "taxpayer's cost of purchasing the new residence." In the case of an acquisition of a residence upon an exchange or conversion which is considered as a purchase under this subsection, the fair market value of the new residence shall be considered as the "taxpayer's cost of purchasing the new residence."

This section of the bill as passed by the House included in the "taxpayer's cost of purchasing the new residence" only so much of the cost as is attributable to acquisition, construction, reconstruction, or improvements made within the 2-year period of time in which the purchase of the new residence must be made in order to have gain not recognized under the amendment and which is properly chargeable to capital account rather than to current expense. Your committee has added a new subparagraph (G) to the proposed section 112 (n) (2) to extend from 1 year to 18 months the time after the sale of the old residence within which the taxpayer must use a new residence, the construction of which was commenced by the taxpayer prior to the expiration of 1 year after the date of such sale, in order to have any of the gain on such sale not recognized, and within which the costs of constructing such a new residence will be considered as the "cost of purchasing the new residence."

Where any part of the new residence is acquired by the taxpayer, for example, by gift, the value of such part is not to be included in determining the taxpayer's cost of the new residence. If the taxpayer acquires a residence by gift or inheritance, and spends \$10,000 in reconstructing the residence, only \$10,000 may be treated under paragraph (1) as the taxpayer's cost of purchasing the new residence.

Paragraph (6) of the proposed subsection provides that, if the taxpayer and his spouse, in accordance with the regulations which the Secretary shall prescribe pursuant to such paragraph, consent to the application of subparagraph (B) of such paragraph, the words "taxpayer's selling price of the old residence" shall mean the taxpayer's or the taxpayer and his spouse's selling price of the old residence, and the words "taxpayer's cost of purchasing the new residence" shall mean the cost to the taxpayer, or to his spouse, or to both of them, of purchasing the new residence, whether such new residence is held by the taxpayer, or his spouse, or both. Such subparagraph (B) provides that so much of the gain upon the sale of the old residence as is not recognized solely by reason of paragraph (6) and so much of the adjustment to basis of the new residence under paragraph (4) of the new subsection as results solely by reason of paragraph (6) shall be allocated between the taxpayer and his spouse as provided for in the regulations which the Secretary shall prescribe. Paragraph (6) is applicable only if the old residence and the new residence are each used by the taxpayer and his spouse as their principal residence. If the taxpayer and his spouse do not consent to the application of subparagraph (B), the recognition of gain upon the old residence shall be determined under the proposed subsection without regard to paragraph (6). The following examples will illustrate the application of paragraph (6):

Example (1).—A taxpayer, in 1951, sells for \$10,000 the principal residence of himself and his wife, which he owns individually and which has an adjusted basis to him of \$5,000. Within a year after such sale he and his wife contribute \$5,000 each from their separate funds for the purchase of their new principal residence which they hold as tenants in common, each owning an undivided one-half interest therein. If the taxpayer and his wife consent to the application of section 112 (n) (6) (B), it is anticipated that the regulations which the Secretary shall prescribe under such section will provide that the gain of \$5,000 upon the sale of the old residence will not be recognized to the taxpayer, and the adjusted basis of the taxpayer's interest in the new residence will be \$2,500 and the adjusted basis of the taxpayer's wife's interest in such property will be \$2,500.

Example (2).—A taxpayer and his wife, in 1951, sell for \$10,000 their principal residence, which they own as joint tenants and which has an adjusted basis of \$2,500 to each of them (\$5,000 together). Within a year after such sale, the wife spends \$10,000 of her own funds in the purchase of a new principal residence for herself and the taxpayer and takes title in her name only. If the taxpayer and his wife consent to the application of section 112 (n) (6) (B), it is anticipated that the regulations which the Secretary shall prescribe under such section will provide that the adjusted basis to the wife of the new residence shall be \$5,000, and the gain of the taxpayer of \$2,500 upon the sale of the old residence will not be recognized. The wife, as a taxpayer herself,

will have her gain of \$2,500 on the sale of the old residence not recognized under paragraph (1) of section 112 (n).

If the taxpayer sells or otherwise disposes of a new residence prior to the date of the sale of the old residence, paragraph (2) (E) provides that such new residence will not be considered as a new residence for the purposes of this subsection. And, if the taxpayer, within the specified period, purchases more than one property which is used by him as his principal residence during the 1 year succeeding the date of the sale of the old residence, paragraph (2) (F) provides that only the last of such residences so used by him shall be considered a new residence for the purposes of this subsection. However, if the taxpayer's new residence is destroyed, stolen, seized, requisitioned, condemned, or sold or exchanged under the threat or imminence of requisition or condemnation within the year succeeding the date of the sale of the old residence, then, for the purpose of the preceding sentence, such year is deemed to end on the date of the destruction, theft, seizure, requisition, condemnation, sale, or exchange. If within 1 year prior to the sale of the old residence, the taxpayer sold other property used by him as his principal residence at a gain, and any part of such gain was not recognized under this subsection, paragraph (3) provides that the subsection shall not apply with respect to the sale of the old residence. For the purposes of the preceding sentence, however, the destruction, theft, seizure, requisition, condemnation, or the sale or exchange under the threat or imminence of requisition or condemnation shall not be considered as a sale. The following example will illustrate this paragraph:

A taxpayer sells his old residence on January 15, 1951, and purchases a new residence on February 15, 1951. On March 15, 1951, he sells the new residence and purchases a second new residence on April 15, 1951. The gain on the sale of the old residence on January 15, 1951, will not be recognized except to the extent to which the taxpayer's selling price of the old residence exceeds his cost of purchasing the second new residence purchased on April 15, 1951. Gain on the sale of the first new residence on March 15, 1951, will be recognized. If, instead of selling the first new residence on March 15, 1951, such residence had been destroyed by fire on that date and insurance proceeds in cash had been received as a result thereof, the gain on the sale of the old residence on January 15, 1951, will not be recognized except to the extent to which the taxpayer's selling price of the old residence exceeds his cost of purchasing the new residence purchased on February 15, 1951. And, gain on the involuntary conversion by fire of the first new residence on March 15, 1951, will not be recognized except to the extent to which the amount realized from such conversion exceeds the taxpayer's cost of purchasing the second new residence purchased on April 15, 1951.

Paragraph (4) of the new subsection provides that where the purchase of a new residence results in the nonrecognition, under that subsection, of any part of the gain realized upon the sale of an old residence, then, in determining the adjusted basis of the new residence as of any time following the date of the sale of the old residence, the adjustments to basis shall include a reduction by an amount equal to the amount of the gain which was not recognized upon the sale of the

old residence. Such a reduction is not to be made for the purpose of determining the adjusted basis of the new residence as of any time preceding the sale of the old residence. For this purpose the amount of the gain not recognized under this subsection upon the sale of the old residence includes only so much of the gain as is not recognized because of the taxpayer's cost, up to the date of the determination of the adjusted basis, of purchasing the new residence. The following example will illustrate this paragraph:

On January 1, 1951, the taxpayer buys a new residence for \$10,000. On March 1, 1951, he sells for \$15,000 his old residence which has an adjusted basis to him of \$5,000. During April a wing is constructed on the new house at a cost of \$5,000 and in May he builds a garage at a cost of \$2,000. The adjusted basis of the new residence is \$10,000 during January and February, \$5,000 during March and April, and \$7,000 following the completion of the construction in May.

Whenever a taxpayer sells property used as his principal residence at a gain the statutory period prescribed in section 275 of the code for the assessment of any deficiency attributable to any part of such gain will not expire prior to the expiration of 3 years from the date the Secretary is notified by the taxpayer, in accordance with such regulations as the Secretary may prescribe, of the cost of purchasing the new residence which the taxpayer claims results in the nonrecognition of any part of such gain, or of the taxpayer's intention not to, or failure to, purchase a new residence within the period when such a purchase will result in the nonrecognition of any part of such gain. Such a deficiency may be assessed prior to the expiration of such 3-year period notwithstanding the provisions of any other law or rule of law which might otherwise bar such assessment.

Subsection (b) of the bill makes a number of technical amendments to other sections of the code which are necessitated by the addition of subsection (n) to section 112. The first such amendment provides that section 112 (f), relating to involuntary conversions, shall not apply in the case of property used by the taxpayer as his principal residence if the destruction, theft, seizure, requisition, condemnation, or sale or exchange under the threat or imminence of requisition or condemnation of such property occurred after December 31, 1950. The second such amendment provides that section 113 (a) (9), relating to basis of property acquired as a result of an involuntary conversion, shall not be applicable to property acquired as a result of a compulsory or involuntary conversion of property used by the taxpayer as his principal residence if the destruction, theft, seizure, requisition, condemnation, or sale or exchange under the threat or imminence of requisition or condemnation of such property occurred after December 31, 1950. These sections are superseded in this situation by the new section 112 (n) and the new section 113 (b) (1) (K). The third such amendment adds a new subparagraph (K) to section 113 (b) (1), relating to adjusted basis of property, which provides a cross-reference from such section to section 112 (n) (4). The fourth such amendment adds a new paragraph (7) to section 117 (h), relating to the determination of the holding period, to provide that in determining the period for which the taxpayer has held a residence the acquisition of which resulted under section 112 (n) in the nonrecognition of any part of the gain realized on the sale, exchange, or involuntary or

compulsory conversion of another residence, there shall be included the period for which such other residence had been held as of the date of such sale, exchange, or involuntary conversion. The last of such amendments adds a new subsection (e) to section 276, relating to the period of limitation upon assessment and collection, which provides a cross-reference from such section to section 112 (n) (7).

Subsection (c) of the bill contains the effective date of the amendments made by this section of the bill. Such amendments are to be applicable to taxable years ending after December 31, 1950, but the provisions of the proposed section 112 (n) (1) and (6) shall apply only with respect to residences sold, within the meaning of such section, after such date. A purchase of a new residence prior to December 31, 1950, or in a taxable year ending before January 1, 1951, shall, if otherwise qualified, be considered a new residence for the purpose of section 112 (n) (1) and (6).

SECTION 319. PERCENTAGE DEPLETION

This section corresponds to section 304 of the bill as passed by the House. The House bill granted a percentage depletion allowance at the rate of 5 percent in the case of deposits of asbestos, sand, gravel, stone (including pumice, scoria, and slate), brick clay, tile clay, shale, oyster shell, clam shell, granite, and marble. Your committee has granted percentage depletion in the case of asbestos at the rate of 10 percent and has added to the above list sodium chloride and, if produced from brine wells, calcium chloride, magnesium chloride, potassium chloride, and bromine. Your committee has removed slate from the parenthetical clause following stone and has included it as a separate item in this 5-percent category. The House bill increased the 5-percent rate of percentage depletion now allowed for coal to 10 percent. Your committee has followed this treatment in the case of coal and has included in this new 10-percent category those minerals which the House bill would have allowed percentage depletion at a rate of 15 percent. These minerals are borax, fuller's earth, tripoli, refractory and fire clay, quartzite, perlite, diatomaceous earth, metallurgical grade limestone, and chemical grade limestone. Your committee has also added wollastonite, magnesite, dolomite, and brucite to this 10-percent list, and has added aplite to the listed materials now allowed percentage depletion at the 15-percent rate.

Subsection (b) of this section makes a technical amendment to paragraph (2) of section 114 (b) of the code in order to eliminate the necessity of listing by name those mines for which depletion based on discovery value is denied by reason of the allowance of percentage depletion.

Your committee has made technical amendments to section 114 (b) (4) (A) which do not alter its substance. The House bill changed the parenthetical clause, stating that thenardite produced from brines or mixtures of brine would be allowed percentage depletion, to state that thenardite, including thenardite from brines or mixtures of brine, would be permitted such allowance. Your committee believes that the same effect can be achieved by striking the parenthetical clause.

The amendments made by this section shall be applicable only with respect to taxable years beginning after December 31, 1950.

SECTION 320. REDEMPTION OF STOCK TO PAY DEATH TAXES

This section, for which there is no corresponding provision in the House bill, amends section 115 (g) (3) of the code, relating to the redemption of stock to pay death taxes. Under that section, section 115 (g) (1), relating to the treatment as dividends of amounts distributed in redemption of stock, is made inapplicable to amounts distributed in redemption of stock the value of which is included in determining the value of the gross estate of a decedent provided, among other limitations, that the value of the stock in such corporation comprises more than 50 percent of the value of the net estate of the decedent. Under your committee's amendment this 50-percent limitation is reduced to 25 percent.

The amendment made by this section is applicable only with respect to taxable years ending on or after the date of enactment of this act but shall apply only to amounts distributed on or after such date.

SECTION 321. EARNED INCOME FROM SOURCES WITHOUT THE UNITED STATES

This section, for which there is no corresponding provision in the House bill, amends section 116 (a) (1) and (2), and section 1621 (a) (8) (A), of the Internal Revenue Code.

Under existing law an individual citizen of the United States is permitted to exclude from gross income all amounts received from sources without the United States if (1) the taxpayer establishes to the satisfaction of the Commissioner that he has been a bona fide resident of a foreign country or countries throughout the entire taxable year and (2) such amounts constitute earned income as specifically defined. Amounts paid by the United States or any agency thereof do not come within the exclusion privilege.

If a citizen has been a bona fide resident of a foreign country or countries for a period of at least 2 years before the date on which he changes his residence from the foreign country to the United States, he is also permitted under section 116 (a) (2), relating to taxable year of change of residence to the United States, to exclude from gross income earned income (as specifically defined) from sources without the United States which is attributable to that part of the period before the date of change in residence. This exclusion is also not permitted with respect to amounts paid by the United States or any agency thereof.

Two disadvantages of section 116 (a) (1) and (2), as now written, are (1) that the citizen who assumes bona fide residence in a foreign country in a given taxable year after a portion of such year has expired is in no case permitted the exclusion with respect to that year irrespective of the duration of the period of bona fide foreign residence in years subsequent to that in which such residence has been taken up, and (2) the residence requirement operates to deny the exclusion privilege to individual citizens of the United States who are employed in foreign countries for extended periods of time and have not in fact or law become a bona fide resident of a foreign country.

This section amends section 116 (a) (1) to provide that an individual citizen of the United States will be permitted to exclude from gross

income all such earned income to which the section now relates which is attributable to an uninterrupted period of foreign residence, if the taxpayer establishes to the satisfaction of the Secretary that he has been a bona fide resident of a foreign country or countries for such uninterrupted period which includes an entire taxable year. This will permit the exclusion with respect to the part of the taxable year subsequent to the taxpayer's becoming a bona fide resident, if the taxpayer eventually comes within the other requirements of section 116 (a) (1). The qualifying period of bona fide foreign residence must be continuous and uninterrupted; however, trips to the United States for purposes of business or vacation will not disqualify the taxpayer from satisfying bona fide residence requirements. The bona fide residence rule is the same as the present law. Present section 116 (a) (2), relating to the taxable year of change of residence to the United States, is considered no longer to be necessary and is, therefore, deleted.

This section also adds a new section 116 (a) (2) under the provisions of which an individual citizen of the United States will be permitted to exclude from gross income all amounts received from sources without the United States which constitute earned income (as specifically defined) attributable to any period of 18 consecutive months during which the taxpayer is physically present in a foreign country or countries for a total of at least 510 full days. Thus, if a citizen is unable to satisfy the bona fide residence requirement of section 116 (a) (1), he has the alternative of satisfying the physical-presence test prescribed by section 116 (a) (2). In computing the minimum of 510 full days of physical presence in a foreign country or countries, all separate periods of such presence during the period of 18 consecutive months are to be aggregated. Amounts paid by the United States or any agency thereof do not come within this exclusion privilege.

This section also amends section 1621 (a) (8) (A) of the Internal Revenue Code in order (1) to adapt provisions respecting collection of income tax at source on wages to the substantive changes made by this section of your committee's bill and (2) to eliminate double withholding of income tax from wages in certain circumstances. By virtue of this amendment, collection of income tax at source on wages will not be required in the case of wages paid by any employer (other than the United States or any agency thereof) for services performed in a foreign country by a United States citizen, if it is reasonable to believe that such remuneration will be excluded from gross income under the provisions of section 116 (a) (1) or (2). However, wages paid to a citizen of the United States by a private employer for services performed in the United States will be subject to withholding, even though such citizen is a bona fide resident of a foreign country. In addition, section 1621 (a) (8) (A) is so amended by this section that collection of income tax at source on wages will not be required in the case of wages paid by any employer (other than the United States or any agency thereof) for services performed in a foreign country by a United States citizen if, at the time of payment of the wages, the employer is required by the law of such foreign country to withhold income tax upon such wages.

The amendment made to section 116 of the code will be applicable to taxable years beginning after December 31, 1950. The amendment made to section 1621 thereof will be applicable with respect to wages paid on or after January 1, 1952.

SECTION 322. CAPITAL GAINS AND LOSSES

This section, which corresponds to section 305 of the bill as passed by the House, revises the tax treatment of capital gains and losses in the case of a taxpayer other than a corporation.

Under present law, in the case of a taxpayer other than a corporation, gain or loss from the sale or exchange of a capital asset held for more than 6 months (long-term capital gain or loss) is only 50 percent taken into account in computing net income, and gain or loss from the sale or exchange of a capital asset held for 6 months or less (short-term capital gain or loss) is 100 percent taken into account in computing net income. Hence \$1 of short-term capital loss may offset \$2 of long-term capital gain. For example, an individual having a short-term capital loss of \$1 million would pay no tax upon a long-term capital gain of \$2 million.

In the case of a corporation present law requires that short-term capital loss (or gain) offset long-term capital gain (or loss) dollar for dollar instead of at the 2-to-1 ratio just described. Under the amendments made by this section of the bill, short-term capital loss (or gain) and long-term capital gain (or loss) will also offset each other dollar for dollar in the case of a taxpayer other than a corporation.

The essentials of the new treatment of taxpayers other than corporations are as follows:

1. Capital gains (whether long-term or short-term) will be 100 percent taken into account in computing gross income.

2. Capital losses (whether long-term or short-term) will be 100 percent taken into account as deductions in computing net income; except that (as under present law) such losses may be allowed only to the extent of capital gains plus the smaller of (a) \$1,000 or (b) the net income (or adjusted gross income in case Supplement T is used) of the taxpayer computed without regard to capital gains and losses.

3. A new deduction from gross income is provided, to be computed as follows: As under present law, the taxpayer will merge his short-term capital gains and losses to obtain his net short-term capital gain or loss, as the case may be; and will merge his long-term capital gains and losses (taken into account 100 percent) to obtain his net long-term capital gain or loss, as the case may be. A taxpayer having a net long-term capital gain will then reduce it by any net short-term capital loss and will take as a deduction one-half of any remaining excess. This new 50-percent deduction for the excess of net long-term capital gain over net short-term capital loss supersedes the 50-percent inclusion of long-term capital gains and losses provided by present law.

4. As under present law, a taxpayer having an excess of net long-term capital gain over net short-term capital loss is permitted to compute an alternative tax by combining a flat percentage of such excess with a partial tax computed in the regular manner upon the balance of his net income.

Subsection (a) of this section adds a new subsection (ee) to section 23 of the code and amends section 117 (b) of the code (which heretofore has prescribed the percentages of gain or loss taken into account), so as to provide the new deduction for 50 percent of the excess of net long-term capital gain over net short-term capital loss. An estate or trust is required to exclude, in computing this deduction, capital

gain which under section 162 (b) or (c) is includible as such by its income beneficiaries.

The following examples will illustrate the differences in the computation of net income under present law and under the new treatment in the case of an individual who, it is assumed, has net income of \$8,000 computed without regard to capital gains and losses:

Example (1).—Assume that the individual realizes \$2,000 of long-term capital gain and \$1,500 of short-term capital loss during the taxable year. Under present law one-half of the gain (\$1,000) is includible in gross income, the \$1,500 loss is allowable, and the net income is \$7,500. Under the new treatment the entire \$2,000 of the gain is includible in gross income, the \$1,500 loss is allowable, a deduction under section 23 (ee) is also allowed in the amount of \$250 (one-half of the excess of the gain over the loss), and the net income is \$8,250.

Example (2).—Assume that the individual realizes \$3,000 of long-term capital loss and \$2,000 of short-term capital gain during the taxable year. Under present law the \$2,000 gain is includible in gross income, the one-half of the loss (\$1,500) taken into account is allowable, and net income is \$8,500. Under the new treatment the \$2,000 gain is includible in gross income, the \$3,000 loss is allowable, and net income is \$7,000.

Example (3).—Assume that the individual realizes \$3,000 of long-term capital loss and \$2,000 of short-term capital loss during the taxable year. Under present law net income is \$7,000, and the taxpayer may carry forward, to be used as short-term capital loss in the five succeeding years, \$2,500 (the short-term capital loss, \$2,000, plus one-half of the long-term capital loss, \$1,500, less the loss allowed in the current year, \$1,000). Under the new treatment net income is also \$7,000, but the taxpayer may carry forward, to be used as a short-term capital loss in the five succeeding years, \$4,000 (the aggregate losses of \$5,000 less the \$1,000 allowed in the current year).

Subsection (b) of this section amends section 117 (c) (2) of the code (relating to alternative tax in the case of a taxpayer other than a corporation). The purpose of this amendment is to conform the computation of the alternative tax to the new treatment of capital gains and losses. Because of the deduction provided by sections 23 (ee) and 117 (b), as amended, net income under the new treatment will include only 50 percent of the excess of net long-term capital gain over net short-term capital loss. Hence it has been necessary to provide that the partial tax, to be computed at the rates and in the manner as if section 117 (c) had not been enacted, shall be computed upon the net income reduced by only such 50 percent of the excess. The amount to be added to the partial tax, to arrive at the total tax, is computed by taking 25 percent of the whole excess of net long-term capital gain over net short-term capital loss.

The application of section 117 (c) (2), as amended, may be thus illustrated: Assume that for the calendar year 1952 an individual has net income of \$90,000 computed as follows: \$50,000 of ordinary net income, and an \$80,000 excess of net long-term capital gain over net short-term capital loss, with a deduction of \$40,000 allowable under section 23 (ee) with respect to such excess. The first step is to compute a partial tax upon \$50,000 under the provisions of sections 11 and 12; this partial tax is \$28,672. The second step is to take 25

percent of \$80,000 (excess of net long-term capital gain over net short-term capital loss), which is \$20,000. The alternative tax is, therefore, \$48,672.

Subsection (c) (1) of this section amends section 22 (n) to provide that the new deduction allowed by section 23 (ee) shall be taken in computing adjusted gross income.

Subsections (c) (2) and (3) make conforming amendments to sections 117 (a) (2), 117 (a) (4), and 117 (j) (2) (A). As amended, these sections deal with specified types of gains "if and to the extent taken into account in computing gross income." Although the percentage inclusion provisions have been eliminated from section 117 (b), this limiting expression is necessary in order to eliminate any gain which for any reason is not includible in gross income for the taxable year.

Subsection (c) (4) of this section makes a conforming amendment to section 122 (d) (4) of the code (relating to computation of the net operating loss deduction). The principle enunciated by the Supreme Court in the *Reo Motors, Inc. v. Commissioner* (338 U. S. 442), (which disapproved the decision in *Commissioner v. Moore, Inc.* (151 F. (2d) 527)) will govern in applying the effective date provisions with respect to this amendment.

Subsection (c) (5) of this section amends section 162 (a) of the code (relating to deductions of a trust or estate). This amendment merely makes certain that the principle of *United States v. Benedict, et al.* (338 U. S. 692) and related cases will continue under the bill as under existing law, namely, that appropriate adjustment of the deductions under section 162 (a) is to be made on account of the applicable treatment of capital gains and losses.

Subsection (d) of this section provides that the amendments made by the section shall be applicable only with respect to taxable years beginning on or after the date of enactment of the bill. The treatment of capital gains and losses of years beginning before such date is not affected by these amendments for any purpose, including the determination under section 117 (e) of the amount of the capital loss or of the net capital gain for any taxable year beginning before such date. Thus, in the case of a taxpayer whose taxable year is a calendar year, a net capital loss for the calendar year 1950, and the net capital gain for 1951, would be computed without regard to the amendments even though the loss is carried forward under 117 (e) of the code to the calendar year 1952, a year to which the amendments will be applicable. In determining the amount of the net capital loss for 1950 which can be carried over under section 117 (e) to 1953, the computation of the net capital gain for 1952 would, of course, be computed with regard to the amendments made by this section.

SECTION 323. SALE OF LAND WITH UNHARVESTED CROP

This section, for which there is no corresponding provision in the House bill, amends section 117 (j) of the code (relating to sale, exchange, or conversion of property used in the trade or business) to provide that, under certain conditions, an unharvested crop shall be considered as property used in the trade or business. Whether gain or loss from the sale, exchange, or conversion of such a crop will, as a result of this amendment, be treated as gain or loss from the sale or exchange of a capital asset held for more than 6 months will

depend upon the application of section 117 (j) to that and other transactions of the taxpayer.

Subsection (a) (1) of this section amends section 117 (j) (1) to provide that the term "property used in the trade or business" includes an unharvested crop to which paragraph (3) of section 117 (j) is applicable.

Subsection (a) (2) adds a new paragraph (3) to section 117 (j) to provide that when an unharvested crop on land used in the trade or business and held for more than 6 months is sold or exchanged (or compulsorily or involuntarily converted as a result of destruction in whole or in part, theft or seizure, or an exercise of the power of requisition or condemnation or the threat or imminence thereof) with such land and at the same time and to the same person, such crop shall be considered as "property used in the trade or business." The length of time for which the crop, as distinguished from the land, has been held is immaterial.

Subsection (b) of this section amends section 24 of the code to add a new subsection (f) thereto and amends section 113 (b) (1) of the code to add a new subparagraph (L) thereto, so as to provide that deductions attributable to the production of an unharvested crop, which is considered as property used in the trade or business under section 117 (j) (3), shall not be allowed in computing net income but must be capitalized by making an appropriate adjustment to basis. Such deductions shall be so treated whether or not the taxable year involved is that of the sale, exchange, or conversion of such crop and whether they are for expenses, depreciation, or other items.

Subsection (c) of this section provides that the amendments made by this section shall be applicable only with respect to sales, exchanges, or conversions occurring in taxable years beginning after December 31, 1950.

SECTION 324. SALES OF LIVESTOCK

This section amends section 117 (j) of the code to provide for the tax treatment of livestock. See page 41 of part I of this report for the discussion of this amendment.

SECTION 325. TAX TREATMENT OF COAL ROYALTIES

This section corresponds to section 307 of the House bill. Your committee, however, has made several changes.

Subsections (a), (b), and (c) of this section of the bill amend sections 117 (j) (1) and 117 (k) (2) of the code, which relate, respectively, to the definition of property used in the taxpayer's trade or business and to gain or loss upon the cutting of timber.

The amendment to section 117 (k) (2) provides that if coal which has been owned by the taxpayer for more than 6 months is disposed of by him under any form or type of contract by virtue of which he retains an economic interest in the coal, the difference between the amount received for the coal and the adjusted depletion basis thereof under section 114 (b) (1) shall be treated as a gain or loss, as the case may be, upon the sale of the coal. The amendment to section 117 (j) (1) includes within the term "property used in the trade or business" coal to which section 117 (k) (2) is applicable. The net effect of

these two amendments is to treat the difference between the amount received for the coal and the adjusted depletion basis thereof as gain or loss to which section 117 (j) is applicable; whether such gain or loss will be deemed to be gain or loss from the sale of a capital asset held more than 6 months will depend upon the application of section 117 (j) to these and other transactions of the taxpayer.

An owner shall not be entitled to the allowance for percentage depletion provided for in section 114 (b) (4) with respect to amounts received any part of which are considered to be received from the sale of coal under section 117 (k) (2), as amended by this section. The adjusted depletion basis under section 114 (b) (1) shall, for the purposes of section 117 (k) (2), as amended by this section, include adjustments for development and exploration expenditures and for deductions under section 113 (b) (1) (J) and (M), as added by sections 309 and 341 of this bill.

Your committee has expressly provided in this section that the term "coal" includes lignite.

Under the House bill it was provided that the amendment made by this section would not apply in any case where the taxpayer was personally obligated to pay any part of the cost of operations after the disposal of the coal with respect to the mining thereof. In lieu of this provision, it has been provided that the amendment made by this section shall not apply with respect to any of the income realized by the taxpayer as a co-adventurer, partner, or principal in the business of cutting the timber or mining the coal.

Your committee has added a provision to section 117 (k) (2) to the effect that the date of the disposal of the coal or timber shall be deemed to be the date such coal is mined or such timber is cut, rather than the date of the royalty contract as it was held in *Springfield Plywood Corporation* (15 T. C. No. 91 (1950)).

For the purpose of clarification, your committee has also expressly provided that, in determining the gross income, the adjusted gross income, or the net income of the lessee, the deductions allowable with respect to rents and royalties shall be determined without regard to the provisions of section 117 (k) (2), as amended by this section.

Subsection (d) of this section makes a technical amendment to section 481 (a) (4) of the code so as to exclude gain or loss from the disposal of coal to which section 117 (j) is applicable in determining the net earnings of an individual from self-employment.

Subsection (e) of this section of the bill, for which there is no corresponding provision in the House bill, contains amendments designed to conform section 433 (relating to computation of excess profits net income) and section 440 (a) (1) (relating to definition of inadmissible assets) to the principles of the amendments made to sections 117 (j) (1) and 117 (k) (2).

A new subsection (d) is added to section 433 to provide in substance that excess profits net income for taxable years in the base period shall be computed as if the provisions of sections 117 (j) (1) and 117 (k) (2) which relate to disposals of coal, were a part of the law applicable to the taxable year in the base period for which the excess profits net income is being computed. The effect of this amendment is to treat the difference between amounts received upon the disposal of coal in the base period and the adjusted depletion basis thereof as gain or loss to which section 117 (j) is applicable if such would have

been the effect of the transaction under section 117 (k) (2) if such section, as amended, had been applicable to the taxable year in which the amounts were received. Similarly, in the case of such a disposal of coal in a base period year, a further adjustment is to be made to eliminate any allowance for percentage depletion (to the extent such allowance exceeds the amount allowable for cost depletion) with respect to amounts received any part of which would be considered to be received from the sale of coal under section 117 (k) (2).

The amendment to section 440 (a) (1) would add a new subparagraph (C) so as to treat as an inadmissible asset the economic interest in the coal properties referred to in section 117 (k) (2), if the taxpayer is subject to the provisions of section 117 (k) (2) with respect to the income from such coal.

Except as provided in subsection (e), the amendments made by this section shall be applicable only with respect to taxable years ending after December 31, 1950 (whether the contract was made on, before, or after such date), but shall apply only with respect to amounts received or accrued after such date. The amendments made by subsection (e) shall be applicable for all purposes in computing the excess profits tax for taxable years ending after December 31, 1950. For example, in computing such tax for 1951 in the case of a taxpayer on the calendar-year basis, the new definition of inadmissible assets is applicable in computing yearly base period capital under section 435 (f), original inadmissible assets under section 435 (g), and total assets under section 442 (f).

SECTION 326. COLLAPSIBLE CORPORATIONS

This section corresponds to section 308 of the House bill. Your committee, however, has made the amendments made by this section applicable to taxable years ending after August 31, 1951 (but only with respect to gain realized after such date), rather than to taxable years beginning after December 31, 1950.

This section of the bill amends section 117 (m) of the code, relating to collapsible corporations. Section 117 (m) (2) (A) defines the term "collapsible corporation." Such a corporation is presently defined as a corporation formed or availed of principally for the manufacture, construction, or production of property, or for the holding of stock in a corporation so formed or availed of, with a view to (i) the sale or exchange of stock by its shareholders (whether in liquidation or otherwise), or a distribution to its shareholders, prior to the realization by the corporation manufacturing, constructing, or producing the property of a substantial part of the net income to be derived from such property, and (ii) the realization by such shareholders of gain attributable to such property. This section of the bill adds to such definition the case of a corporation formed or availed of principally for the purchase of property which (in the hands of the corporation) is property described in section 117 (a) (1) (A) (stock in trade, etc.), or for the holding of stock in a corporation so formed or availed of, with a view to (i) the sale or exchange of stock by its shareholders (whether in liquidation or otherwise), or a distribution to its shareholders, prior to the realization by the corporation purchasing the property of a substantial part of the net income to be derived from such property, and (ii) the realization by such shareholders of gain attributable to such property.

It is immaterial, for the purpose of the amendment made by this section of the bill, whether the purchase of the property in question is made from the shareholders of the corporation or from persons other than the shareholders of the corporation. The property, however, must be property which, in the hands of the corporation, is property of a kind described in section 117 (a) (1) (A). Section 117 (a) (1) (A) excludes from the definition of "capital assets" set forth in section 117 (a) (1), "stock in trade of the taxpayer or other property of a kind which would properly be included in the inventory of the taxpayer if on hand at the close of the taxable year, or property held by the taxpayer primarily for sale to customers in the ordinary course of his trade or business." It is assumed that property which, in the hands of an ordinary corporation, would be property of a kind described in section 117 (a) (1) (A) would also be such property in the hands of a corporation, formed or availed of within the meaning of section 117 (m).

In order to conform the other provisions of section 117 (m) to the above amendment, necessary changes have been made therein.

The amendments made by this section are applicable to taxable years ending after August 31, 1951, but only with respect to gains realized after such date, but it is specifically provided that the determination of the tax treatment of gains realized prior to September 1, 1951, shall be made as if this section had not been enacted and without inferences drawn from the fact that the amendments made by this section to section 117 (m) are not made applicable to such gains and without inferences drawn from the limitations contained in section 117 (m), as amended by this section.

SECTION 327. DEALERS IN SECURITIES—CAPITAL GAINS AND ORDINARY LOSSES

This section adds a new subsection (n), relating to the treatment of capital gains and ordinary losses by dealers in securities, to section 117 of the code. The section is the same as section 309 of the House bill except that the treatment of losses in the case of a bank is qualified so as to be consistent with the treatment provided in section 117 (i).

Under existing law, a taxpayer may be considered as a dealer with respect to certain securities and as an investor with respect to other blocks of securities. Under present court decisions, it is possible for a dealer to shift securities from an investment account to an inventory account or vice versa, thereby affording an opportunity for converting what should be ordinary gain into capital gain and what should be capital loss into an ordinary loss. Section 117 (n), as added by this section of the bill, provides rules designed to prevent a dealer from obtaining the most beneficial tax result by a shift in securities from one account to another, or by insufficient identification of the securities alleged to be within a particular account.

Paragraph (1) of subsection (n) provides rules for the treatment of capital gains by a dealer in securities. Under this paragraph, gain by such a dealer from the sale or exchange of a security shall in no event be considered as gain from the sale or exchange of a capital asset unless (A) the security is, prior to the expiration of the thirtieth day after its acquisition or after the date of enactment of this act (whichever is later), clearly identified in the dealer's records as a security held for

investment; and (B) the security is not, at any time after the expiration of such thirtieth day, held by the dealer primarily for sale to customers in the ordinary course of the trade or business. It is contemplated that the regulations may prescribe the methods of identification which will adequately earmark the security as one held for investment.

The provisions of section 117 (n) (1) are intended to operate only in the case where gain from the sale of a security would, but for the provisions of such paragraph, be considered to constitute capital gain. Thus, if a security sold by a dealer would be considered, but for section 117 (n) (1), to constitute the sale of a security held for investment, gain from the sale of such security will nonetheless not be considered as capital gain unless the security has been properly identified within the 30-day period in the dealer's records as held for investment and is at no other time thereafter held for sale to customers in the ordinary course of the trade or business. However, the mere fact that a security, which is actually held by the dealer for sale to customers in the ordinary course of the trade or business, is identified as required by this section as a security held for investment, will not cause the gain from the sale of the security to be treated as capital gain.

Section 117 (n) (2) provides the rule for treatment of ordinary losses by a dealer in securities. This rule is that a loss from the sale or exchange of a security shall be considered as a capital loss if at any time after the thirtieth day following the date of enactment of this act the security was clearly identified in the dealer's records as a security held for investment. The effect of section 117 (n) (2) is that, if a security has once been identified as held for investment, a loss on the subsequent disposition of such security shall in no event be considered as a loss from the sale or exchange of property which is not a capital asset. Your committee has added a qualification not specifically contained in the House bill which excepts from the application of section 117 (n) (2) transactions described in section 117 (i), providing in substance that, in the case of a bank, if losses from sales or exchanges of certain types of obligations exceed the gains from such sales or exchanges, the excess of such losses are considered as ordinary losses. Under your committee's amendment, the provisions of section 117 (n) (2) will not apply if section 117 (i) is applicable.

For the purposes of section 117 (n) the term "security" means any share of stock in any corporation, any certificate of stock or interest in any corporation, a note, bond, debenture, or evidence of indebtedness, or any evidence of an interest in or right to subscribe to any of the foregoing.

The amendment made by this section is applicable only with respect to sales or exchanges made after the expiration of the thirtieth day after the date of enactment of this act.

SECTION 328. RECEIPTS OF CERTAIN TERMINATION PAYMENTS BY EMPLOYEE

This section, for which there is no corresponding provision in the House bill, adds a new subsection (o) to section 117 of the code, to provide that certain payments received by an employee after the termination of his employment, which under existing law are taxable

as ordinary income, shall be treated as gains from the sale or exchange of a capital asset held for more than 6 months.

The provisions of section 117 (o) are applicable solely to amounts received from the assignment or release by an employee of all his rights to receive, after termination of his employment, a percentage of future profits or receipts of his employer. (By future profits and receipts is meant only such as are attributable to a period subsequent to the termination of employment.) Under this section, capital gain treatment is accorded to such amounts provided that the following conditions are met:

(1) the employee must have been an employee of the employer whose future profits or receipts are involved for a period of at least 20 years prior to the assignment or release,

(2) the full rights to the percentage of the future profits or receipts which are the subject of the assignment or release must have been incorporated in the terms of the employment of the employee for a period of at least 12 years;

(3) the assignment or release must be made after a complete and bona fide termination of the employment and must convey all the rights of the employee to such future earnings and profits, and must convey no other rights of the employee; and

(4) the total of the amounts received for the assignment or release must be received after such bona fide termination of employment and in one taxable year of the employee.

The provisions of section 117 (o) are applicable to taxable years beginning after 1950.

SECTION 329. NET OPERATING LOSS CARRY-OVER

This section, for which there is no corresponding section in the bill as passed by the House, amends section 122 (b) (2) relating to the amount of net operating loss carry-overs. Subsection (a) of the section amends subparagraph (A) of paragraph (2) which in its present form provides that the net operating loss for a taxable year beginning before January 1, 1950, may (to the extent not absorbed as a carry-back) be carried forward to the next two succeeding taxable years. Under the amendment the provision for the 2-year carry-over is restricted to taxable years beginning before January 1, 1948, with a cross-reference to new subparagraph (D), added by subsection (b) of this section, which provides an exception to the provisions of subparagraph (A) as amended.

Subsection (b) of this section amends section 122 (b) (2) by adding, after subparagraph (B) thereof, two new subparagraphs, (C) and (D). Subparagraph (C) provides that a net operating loss for any taxable year beginning after December 31, 1947, and before January 1, 1950, may (to the extent that it is not absorbed as a carry-back) be carried forward to the four succeeding taxable years. Under the terms of the amendment this provision is applicable to corporate and noncorporate taxpayers alike and without regard to when such taxpayers commenced business. The added subparagraph (D), however, is made applicable only to corporations which commenced business after December 31, 1945, and provides that a net operating loss of any such corporation for a taxable year beginning after December 31, 1945, and before January 1, 1948, may also be carried forward to the four succeeding taxable years.

It will be noted, of course, that a corporation which began business in any of the years in the period 1946 through 1949, is covered under subparagraph (D) in respect of 1946 or 1947 net operating losses and under subparagraph (C), which applies to all taxpayers, for 1948 or 1949 losses.

This section of the bill does not change the 2-year carry-back provisions of existing law in respect of taxable years beginning before January 1, 1950, nor does it change the provisions of existing law for a 1-year carry-back and 5 years carry-over, applicable to taxable years beginning after December 31, 1949.

The amendments made by this section are not applicable in computing the net operating loss deduction for any taxable year beginning before January 1, 1949, but apply only to the computation of such deduction for taxable years beginning after December 31, 1948.

SECTION 330. STOCK OPTIONS

This section of the bill, for which there is no corresponding section in the bill as passed by the House, amends subsection (d) of section 130A, relating to definition of the term "restricted stock option." The introductory phrase "As used in this section," immediately after the heading of subsection (d), is changed by the amendment to read "For the purposes of this section" and a new paragraph (5) is added which provides that if the grant of an option is subject to stockholder approval, the date of the grant of the option shall be determined as if the option had not been subject to stockholder approval. The amendment relates solely to stockholder approval, and its effect is to eliminate stockholder approval as a factor to be considered in determining, for the purpose of section 130A, the time or date of the grant of an option made subject to such approval.

The amendment applies alike to conditions for stockholder approval that are express and those that may be implied from some pertinent provision of the corporation's articles of incorporation or bylaws or from applicable corporate law or regulation, and also applies to the situation where the grant of an option is voluntarily submitted to stockholders for approval notwithstanding the absence of any express or implied requirement that such approval be obtained.

The amendment applies not only to the original grant of an option subject to stockholder approval but to any modification, extension, or renewal of the terms of such an option which requires stockholder approval.

The amendment is made effective as if it had been enacted as a part of section 218 of the Revenue Act of 1950.

SECTION 331. CREDIT FOR TAXES OF FOREIGN CORPORATIONS

This section, for which there is no corresponding provision in the House bill, amends section 131 (f) (1) and (2) of the Internal Revenue Code.

Under the existing provisions of section 131 (f) (1) a domestic corporation which owns a majority of the voting stock of a foreign corporation from which it receives dividends in any taxable year will, for the purpose of section 131 under which a tax credit is allowed for

taxes paid or accrued during the taxable year to any foreign country or possession of the United States, be deemed to have paid a specified proportion of any income, war profits, or excess profits taxes paid, or deemed to be paid, by such foreign corporation to any foreign country or possession of the United States upon or with respect to the accumulated profits (as specifically defined) from which the dividends were paid. Thus, the domestic corporation is allowed a credit, not only with respect to the foreign taxes actually paid or accrued by it, but also with respect to such taxes deemed to have been paid by it under the provisions of section 131 (f) (1).

If the foreign corporation (hereinafter referred to as the foreign parent) so controlled by the domestic parent corporation owns all the voting stock (except qualifying shares) of another foreign corporation (hereinafter referred to as the foreign subsidiary) from which it receives dividends in any taxable year, it in turn will, under current provisions of section 131 (f) (2), be deemed for the purpose of section 131 (f) (1) to have paid a specified proportion of any income, war profits, or excess profits taxes paid by the foreign subsidiary to any foreign country or possession of the United States upon or with respect to the accumulated profits (as defined) from which the dividends were paid. Such tax is then taken into consideration in the determination under section 131 (f) (1) of the amount of income, war profits, and excess profits taxes paid, or deemed to have been paid, by the foreign parent upon or with respect to its own accumulated profits from which dividends were paid by such foreign parent to its domestic parent corporation.

Your committee proposes to liberalize the stock-ownership requirements of section 131 (f) (1) and (2), without making any change in the existing procedure for computing the specified proportion of income, war profits, or excess profits taxes deemed to have been paid. Accordingly, this section so amends section 131 (f) (1) of the code that, effective with respect to dividends received by a domestic corporation from a foreign corporation during taxable years beginning after December 31, 1950, any domestic corporation which owns 10 percent or more of the voting stock (rather than a majority) of a foreign corporation from which it receives dividends in any taxable year will be deemed to have paid the specified proportion of taxes paid, or deemed to be paid, by such foreign corporation. In addition, this section so amends section 131 (f) (2) of the code that, effective with respect to dividends received by a foreign corporation from another foreign corporation in taxable years beginning after December 31, 1950, any foreign corporation (10 percent or more of whose voting stock is owned by the domestic corporation) which owns a majority of the voting stock of another foreign corporation (rather than all except qualifying shares) from which it receives dividends in any taxable year will be deemed for the purpose of section 131 (f) (1) to have paid the specified proportion of taxes paid by such other foreign corporation.

SECTION 332. INFORMATION AT SOURCE ON PAYMENTS OF INTEREST

Under existing law, except in the case of payments of interest upon bonds, mortgages, deeds of trust, or other similar obligations of corporations and upon obligations of the United States or any agency or

instrumentality thereof, persons making payment of interest may not be required to furnish an information return unless the payment of interest is \$600 or more. This section of the bill amends section 147 to give the Secretary the authority to require information returns disclosing payments of interest, regardless of amounts. Such returns may be required to be filed under regulations prescribed by the Secretary by any individual, partnership, corporation, insurance company, bank, mutual savings bank, building and loan association, cooperative bank, homestead association, Federal savings and loan association, credit union, or any other payor of interest, irrespective of the type of obligation on which such interest is payable. Information returns may be required under this amendment in the case of constructive payments of interest, as well as actual payments.

SECTION 333. ABATEMENT OF INCOME TAX FOR CERTAIN MEMBERS OF ARMED FORCES UPON DEATH

This section, for which there is no corresponding provision in the House bill, amends Supplement D of chapter 1 of the Internal Revenue Code (relating to returns and payment of taxes) by adding a new section 154 thereto.

Such section 154 provides that, where any individual dies after June 24, 1951, and prior to January 1, 1954, while in active service as a member of the Armed Forces of the United States, if his death occurred while serving in a combat zone, as determined under section 22 (b) (13) of the code, or at any place as a result of wounds, disease, or injury incurred while so serving, (1) the tax imposed by chapter 1 of the code will not apply with respect to the taxable year in which falls the date of his death, or with respect to any prior taxable year which ended on or after the first day he was so serving in a combat zone after June 24, 1950, and (2) the tax (including interest, additions to the tax, and additional amounts) imposed by chapter 1 of the code and under the corresponding title of each prior revenue law for all taxable years preceding those specified in (1) above, which is unpaid at the date of his death shall not be assessed, and if assessed the assessment shall be abated, and if collected shall be credited or refunded as an overpayment.

SECTION 334. EMPLOYEES' TRUSTS

This section, for which there is no corresponding provision in the House bill, amends section 165 (b) (2) of the code, relating to distributions to an employee by a trust which qualifies for exemption under section 165 (a).

Under section 165 (b), amounts distributed or made available to an employee by such a trust (in excess of the employee's contributions) are taxed to the employee only in the years in which distributed or made available and, if the total distributions are paid to the employee in one taxable year on account of the employee's separation from the service, the amount of the distribution (to the extent exceeding the employee's contribution) is taxed at capital gain rates (as from sale or exchange of a capital asset held for more than 6 months).

Under your committee's amendment, where such a total distribution occurs, and consists in whole or in part of securities of the em-

ployer corporation, that part of the excess (of the amounts distributed over the amount of the employee's contributions) as consists of net unrealized appreciation attributable to that part of the total distributions made in securities of such employer corporation shall be excluded from income in the year of distribution, and shall be subject to tax only when the securities are sold (or otherwise disposed of in a taxable transaction). The amount of the net unrealized appreciation which is excluded shall in the hands of the recipient not be included in the basis of the stock or other securities distributed.

The amount of the net unrealized appreciation which is to be excluded shall be determined in accordance with regulations, and the resulting adjustments to basis shall also be allocated to the securities distributed in accordance with regulations.

The postponement of tax provided by the amendment made to section 165 (b) by this section applies only to the net unrealized appreciation in stock of the employer corporation or bonds or debentures issued by such corporation with interest coupons or in registered form. The amendment is applicable only with respect to distributions made after December 31, 1950.

SECTION 335. LIFE INSURANCE COMPANIES

Under section 311 of the House bill, the special rule for 1949 and 1950, set forth in section 202 (b) (2) of the code for use in determining the reserve and other policy liability credit of life insurance companies, would have been extended to apply to taxable years beginning in 1951. Under your committee's amendment there is substituted for this provision a system for taxing such companies, for taxable years beginning in 1951, which is different from that contained in present law. Under this system, in lieu of allowing life insurance companies an adjustment of their normal tax net income and of their corporation surtax net income, by means of the reserve and other policy liability credit, for purposes of a tax imposed at the regular corporate rates, a low-rate tax is imposed on the normal tax net income of such companies without allowance of any such credit. Thus, under subsection (a) of this section, section 201 (a) (1) of the code, relating to the imposition of tax on life insurance companies, is amended to provide for the levy, collection and payment, for taxable years beginning in 1951, of a tax equal to 3¾ percent of the first \$200,000 of 1951 adjusted normal tax net income and 6½ percent of the amount in excess thereof.

Under subsection (b) of this section, a new section 203A is added to the code, following section 203, subsection (a) of which defines the term "1951 adjusted normal tax net income" as the normal tax net income (as defined under present law) plus eight times the amount of the adjustment for certain reserves provided for in section 202 (c) and minus the reserve interest credit, if any, as defined in section 203A (b).

The addition to the normal tax net income under section 203A of eight times the amount of the adjustment for certain reserves provided for in section 202 (c) (an adjustment relating to the non-life-insurance business, if any, done by a life insurance company) is made so as to continue in effect essentially the same rate of tax with respect to that adjustment as is now imposed under present law. The figure eight is used under section 203A since a 6½-percent tax as provided

for by the amendment made to section 201 (a) (1) is exactly one-eighth of a 52-percent total corporate rate of tax as provided for with respect to corporations generally by the amendments made to sections 13 (b) and 15 (b) of the code by section 121 of this bill.

The reserve interest credit provided for in subsection (b) of section 203 is a feature which has no precedent in present law and is designed to give relief from the tax imposed by your committee's amendment, to the extent of a maximum of 50 percent of such tax, in the case of companies the adjusted net income of which, as defined in subsection (c) of section 203A, is less than 105 percent of their required interest, as defined in subsection (d) of that section.

Adjusted net income is defined under subsection (c) as, in effect, the amounts of interest, dividends, and rents received by the companies, net after the deductions provided for under present law under section 201 (c) (7), but without a deduction for tax-free interest, and, in the case of a company doing a non-life-insurance business, less an amount equal to one-half of the amount of the adjustment with respect to that business provided for in section 202 (c). In permitting a deduction of only one-half of the amount of that adjustment, recognition is given to the fact that that adjustment, as first enacted in 1942, was recognized at the time as not reflecting the actual interest, dividends, and rents received by life insurance companies with respect to their non-life-insurance business.

The term "required interest" as defined in subsection (d) of section 203A takes into account the interest and policy commitments of the companies with respect to their life insurance business which are recognized under present law, as amended for the years 1949 and 1950 by the above referred to special rule, in determining the tax base under that law for the purposes of an imposition of a tax at the regular corporate rates provided for in sections 13 (b) and 15 (b) of the code.

Based upon the above factors, the reserve interest credit is made available to companies where the relationship between their adjusted net income and their required interest is such that the adjusted net income is less than 105 percent of the required interest. Where adjusted net income is 100 percent or less of the required interest, the reserve interest credit is determined as an amount equal to 50 percent of the normal tax net income. Where adjusted net income is 105 percent or more of the required interest, the reserve interest credit is stated as being zero. Where adjusted net income is more than 100 percent but less than 105 percent of the required interest, the reserve interest credit is computed by multiplying the normal tax net income by 10 times the difference between 105 percent and the actual percentage established. Thus, in a case where adjusted net income is 103 percent of the required interest, the difference between 105 percent and 103 percent would be 2 and the reserve interest credit would be the normal tax net income multiplied by 20 percent. It is contemplated that the percentage established by comparing adjusted net income to the required interest must be carried to at least the nearest one-tenth of a percentage point with the result that the multiplication by 10 of the difference between 105 percent and such percentage will be productive of a more accurately graduated figure than would be possible were no such fractional percentage to be allowed.

Since a 6½ percent tax on 1951 adjusted normal tax net income is expected to be productive for 1951 of approximately the same tax

in the case of any one company as a tax at the regular corporate rates on the tax base provided under present law, it is apparent that the factors entering into the determination of the reserve and other liability credit adjustment under present law can be considered as taken into account under your committee's amendment, through the particular low rate selected, to the same extent that they are operative under present law. Thus, the figure used by every life-insurance company in determining its reserve and other liability credit is determined after, in effect, removing from the tax base for the industry as a whole the industry's adjustment for certain reserves with respect to a non-life-insurance type of business. Under the circumstances, therefore, in defining 1951 adjusted normal tax net income under section 203 A (a) as the company's total normal tax net income plus an adjustment for such reserves, the operation of the system is such, by reason of the effective rate of the tax, that, in effect, the normal tax net income can be considered as having been first adjusted on an industry-wide basis by the removal of income attributable to such non-life-insurance business.

In the same manner, the treatment under present law of tax-free interest insofar as the companies' policy obligations are concerned can be considered as carried over into the system established by this section.

Under present law, the normal tax on corporations is imposed, for taxable years beginning after June 30, 1950, at a rate of 25 percent of the normal tax net income and the surtax on corporations for such years is imposed at a rate of 22 percent on that amount of the corporation's surtax net income as is in excess of \$25,000. The exemption granted under the surtax on corporations to the first \$25,000 of corporation surtax net income is reflected under your committee's amendment by the imposition of a tax on the first \$200,000 of 1951 adjusted normal tax net income of only $3\frac{3}{4}$ percent. This lowered percentage of that amount of 1951 adjusted normal tax net income is designed to produce the same effect under a $6\frac{1}{2}$ percent tax as the exemption granted under the normal corporate rates to the first \$25,000 of corporation surtax net income. Thus, taking into account the amendments of sections 13 and 15 of the code which would be made by section 121 of the bill, it will be noted that $3\frac{3}{4}$ percent of \$200,000 will produce approximately the same amount of tax as the 27 percent normal tax rate proposed under section 121 would produce on \$25,000.

Subsection (c) of section 335 as added to the bill by your committee's amendment makes several technical amendments to the code required in order to adapt certain provisions of the code to the simplified system established by your committee's amendment. Thus, for purposes of subchapter D, relating to the excess profits tax, the excess profits tax net income of life insurance companies for taxable years beginning in 1951 is defined in the manner provided under present law using, in lieu of the figure used under present law, in connection with the determination of the reserve and other policy liability credit, the figure 0.87. This figure is used since the $6\frac{1}{2}$ percent tax was computed in the first instance on the assumption that such a figure would approximate the figure which, under the House bill, would be proclaimed by the Secretary for 1951.

SECTION 336. TAX TREATMENT OF CERTAIN INVESTMENT COMPANIES

This section, which corresponds to section 312 of the House bill, adds a new subsection (c) to section 361 of the code, which contains certain requirements applicable to regulated investment companies under supplement Q of chapter 1.

Subsection (b) of section 361 provides certain limitations on the types and amounts of securities which may be held by a regulated investment company if the company is to qualify for the tax treatment under supplement Q. Among such limitations is a requirement that at the close of each quarter of the taxable year of a company, at least 50 percent of the value of its total assets be represented by cash and cash items, Government securities, securities of other regulated investment companies, or securities in other companies limited in respect of any one issuer (1) to an amount not in excess of 5 percent of the value of the assets of the investment company, and (2) to not more than 10 percent of the outstanding voting securities of such issuer.

Section 361 (c), as added by this section of the bill, provides that in the case of a registered management investment company which is certified by the Securities and Exchange Commission as principally engaged in supplying capital to other corporations which are principally engaged in the development or exploitation of inventions, technological improvements, new processes or products not previously available, the investment company, notwithstanding the 10-percent stock ownership limitation in section 361 (b), may include, in the 50 percent of its assets restricted under section 361 (b), the value of any securities of an issuer, even though the investment company holds more than 10 percent of the stock of such issuer; but only if the investment company has not continuously held any securities of such issuer (or of any predecessor company as determined under regulations prescribed by the Secretary) for 10 or more preceding years. However, this provision does not modify the 5-percent limitation with respect to the amount of assets which may be invested in securities of any one issuer. Section 361 (c) does not apply in any taxable year if at the close of any quarter of the taxable year more than 25 percent of the total assets of the investment company is represented by securities of issuers as to which (1) the investment company holds more than 10 percent of the outstanding voting stock and (2) the investment company has continuously held any security (or any security of a predecessor of such issuer) for 10 or more years, unless within 30 days after the close of such quarter the value of the total assets represented by such securities is reduced to 25 percent or less of the value of the total assets of the investment company.

In the determination by the Securities and Exchange Commission, consideration is to be given to the purpose and function of the investment company and to its continuing over-all operation. Ordinarily, for example, it would be requisite that a major portion of the assets of the investment company represent securities in operating companies developing and exploiting new processes and products. It is recognized, however, that such an investment company may find it desirable to invest a portion of its assets in other securities, such as Government bonds, which will provide operating income to meet the expenses

incurred in making investments in companies developing new products, and so forth. An investment company would not qualify under subsection (c) if its principal purpose or activity is to establish and maintain control, as a holding company, over the operating companies and not merely to foster the initial development of such companies. Retention of an investment in one or more operating companies, however, would not necessarily imply holding-company status if the operations of the investment company, viewed as a whole, indicated that the retention of such securities is incidental to its principal activities.

An operating company will not be considered to be engaged in the development of new processes or products merely because the process or product is new to the company. It is essential that the process or product represent a substantial technological improvement, or be different to a material degree from a process or product previously available. Thus, a change in style, a new model, an adaptation of an existing product, or such improvements as are customarily made in the trade would not qualify.

For the purposes of subsection (c), a corporation which was, at the time of the first acquisition of its securities by the investment company, principally engaged in the development or exploitation of inventions, technological improvements, new processes, and so forth, will, ordinarily, be considered to be so engaged for at least 10 years after the date of such acquisition. Accordingly, an investment company which acquires the securities of another company which is then principally engaged in developing a new product may continue, for the purposes of subsection (c), to hold such securities even though during such period the subsidiary company may be actively marketing the product which it has developed.

The amendments made by your committee to the provision contained in the House bill are mainly of a technical or clarifying nature. Thus, for example, it is provided that an investment company will be considered, for purposes of the section, to be engaged in furnishing capital to any company whose securities it holds if such securities, or securities surrendered therefor, were acquired from the company within the 10 preceding years. The Securities and Exchange Commission may, however, in such cases as it considers appropriate, nevertheless determine that the investment company is not so engaged. Similarly the presumption with respect to the activities of the operating companies may be rebutted if a contrary determination is made by the Securities and Exchange Commission.

It is provided that the terms used in section 361 (c) shall have the same meaning as in section 361 (b) (3). For example, the term "value" as used in section 361 (c) means, with respect to securities (other than those of majority-owned subsidiaries) for which market quotations are readily available, the market value of such securities; and with respect to other securities and assets, the fair value as determined in good faith by the board of directors subject to the exception that the value of securities of majority-owned subsidiaries which are investment companies shall not exceed the higher of market value or asset value.

Section 361 (c) does not, except with respect to waiver of the 10-percent limitation on voting stock under the circumstances indicated,

affect any of the requirements under section 361 or 362 which would otherwise be applicable to the investment company for purposes of the tax treatment under supplement Q.

Subsection (b) of section 312 provides a technical amendment to section 361 (b) (3) (A) of the code.

The amendments made by this section of the bill are applicable to taxable years beginning after December 31, 1950.

SECTION 337. EXCHANGES AND DISTRIBUTIONS IN OBEDIENCE TO ORDERS OF SECURITIES AND EXCHANGE COMMISSION

This section amends the definition of the term "system group" contained in section 373 (d) of the Internal Revenue Code. In order to secure the treatment accorded by Supplement R to exchanges and distributions made in obedience to orders of the Securities and Exchange Commission certain exchanges and distributions must be made by or to members of the same "system group." Under existing law "system group" is defined as one or more chains of corporations connected through stock ownership with a common parent corporation, provided all three of the following conditions are met:

(1) At least 90 percent of each class of the stock (other than stock which is preferred as to both dividends and assets) of each of the corporations (except the common parent corporation) is owned directly by one or more of the other corporations;

(2) The common parent corporation owns directly at least 90 percent of each class of the stock (other than stock which is preferred as to both dividends and assets) of at least one of the other corporations; and

(3) Each of the corporations is either a registered holding company or a majority-owned subsidiary company.

Section 337 amends only the first condition of the existing definition. Under this section in determining whether one or more of the corporations in the chain owns at least 90 percent of each class of the stock of another corporation in the chain there is excluded not only stock which is preferred as to both dividends and assets but stock which is limited and preferred as to dividends but is not preferred as to assets, provided that the total value of the entire class of such stock constitutes less than 1 percent of the aggregate value of all classes of stock which are not preferred as to both dividends and assets. This section makes no change in conditions (2) and (3) of the existing definition of "system group" contained in section 373 (d). The amendment made by this section is applicable to all taxable years affected by exchanges and distributions made after December 31, 1947.

SECTION 338. TAXATION OF BUSINESS INCOME OF STATE COLLEGES AND UNIVERSITIES

This section, for which there is no corresponding provision in the House bill, deals with taxation of business income of governmental colleges and universities. At present, Supplement U of chapter 1 of the Internal Revenue Code deals with taxation of business income of certain section 101 organizations. Among the organizations subject

to Supplement U tax are private colleges and universities exempt under section 101 (6) of the code. At present, the Supplement U tax does not apply to State colleges and universities, since such organizations are not exempt under section 101 of the code. This section of your committee's bill, in effect, subjects colleges and universities run by governments to similar tax treatment under Supplement U with respect to their unrelated business activities as is now provided under Supplement U in the case of private colleges and universities exempt under section 101 (6) of the code. The amendments made by this section are to be applicable only with respect to taxable years beginning after December 31, 1951.

Subsection (a) of this section amends section 421 (b) (1) of the code (relating to organizations exempt under sec. 101 (1), (6), (7), and (14) which are taxable under sec. 421 (a) (1) at corporate rates on their unrelated business net income) to bring the provisions presently contained therein under a subparagraph numbered (A) and to add after such subparagraph a new subparagraph numbered (B). Section 421 (b) (1) (B) applies the taxes imposed by section 421 (a) (1) to any college or university which is an agency or instrumentality of any government or any political subdivision thereof, or which is owned or operated by a government or any political subdivision thereof or by any agency or instrumentality of any one or more governments or political subdivisions. As here used, the word "government" includes any foreign government (to the extent not contrary to any treaty obligation of the United States) and all domestic governments (the United States and any of its Territories or possessions, any State, and the District of Columbia). In other words, any national, State, municipal or city college or university is brought within the scope of the Supplement U tax, but secondary schools run by such governments are outside such tax.

Section 421 (b) (1) (B) also applies the Supplement U tax to any corporation wholly owned by one or more governmental colleges or universities. Such a corporation would be subject to the tax imposed under Supplement U on income derived from an unrelated trade or business, including rents derived under a Supplement U lease.

Subsection (b) of this section amends section 422 (b), for the purpose of determining the unrelated business net income subject to the Supplement U tax, to define unrelated trade or business to mean, in the case of an organization described in section 421 (b) (1) (B), any trade or business the conduct of which is not substantially related (aside from the need of such organization for income or funds or the use it makes of the profits derived) to the exercise or performance of any purpose or function described in section 101 (6) of the code. The purposes or functions described in section 101 (6) are religious, charitable, scientific, literary, educational, and the prevention of cruelty to children or animals.

Subsection (b) of this section also amends section 422 (b) (2) to provide that the term "unrelated trade or business" does not include any trade or business which is carried on, in the case of a college or university described in section 421 (b) (1) (B), by the organization primarily for the convenience of its members, students, patients, officers, or employees.

SECTION 339. FAMILY PARTNERSHIPS

Subsections (a) and (b) of this section amend section 3797 (a) (2) of, and add a new section 191 to, the code to provide for the tax treatment of family partnerships as explained beginning on page 38 in part I of this report.

Subsection (c) (1) provides that, in general, the amendments made by section 339 (a) and (b) are to be applicable only with respect to taxable years beginning after December 31, 1950. Section 339 (c) (2), however, provides that such amendments, at the election of the taxpayer made in accordance with regulations prescribed by the Secretary of the Treasury, shall also be applicable to taxable years beginning after December 31, 1938, and before January 1, 1951. The election does not have to be with respect to all such taxable years but will be applicable only to such years as are specified by the taxpayer in making the election. The election for any taxable year will not be valid unless, prior to the expiration of 90 days after the filing of the election (or such longer period as the Secretary may by regulations prescribe) each family partner of the taxpayer files, in accordance with the regulations, a written consent to have the amendments apply to his taxable years which corresponds to the taxable years for which the election is made by the taxpayer. In lieu of such consent by any family partner, however, there may be paid, under regulations prescribed by the Secretary and within the time provided for filing such consent, an amount equal to the deficiency and interest which would be assessed with respect to such family partner if he filed such consent. The election and any consent filed in respect of the election shall be applicable only to such partnerships as are specified in the election. The period of limitations provided in sections 275 and 276 of the Internal Revenue Code on the making of assessments and the beginning of distraint or a proceeding in court for collection shall, with respect to any deficiency and interest thereon resulting from such election or consent, include one year following the date such election or consent is filed if such period of limitations otherwise would expire prior to the end of such 1-year period; such assessment and collection may be made notwithstanding any provision of law or any rule of law which otherwise would prevent such assessment and collection. If an election by a taxpayer is filed for a taxable year for which allowance of credit or refund of an overpayment of tax is barred, at the time of filing such election, by any law or rule of law, then any consent filed by a family partner of a taxpayer with respect to such year shall be void.

Section 339 (c) (3) provides special rules for applying the amendments made by section 339 (a) and (b) in certain cases where the taxable year of the taxpayer or a family partner is different from the taxable year of the partnership. If a taxable year of a partnership which ends in 1951 ends within or with a taxable year of the taxpayer or a family partner which began before January 1, 1951, the amendments made by section 339 (a) and (b) shall be applicable, with respect to the distributive shares of income derived by the taxpayer and the family partners from such taxable year of the partnership, only pursuant to the provisions of section 339 (c) (2), notwithstanding the fact that the general rule provided in section 339 (c) (1) might

otherwise be applicable to some of the partners. Similarly, if a taxable year of a partnership which ended in 1939 ended within or with a taxable year of a taxpayer or a family partner which began before January 1, 1939, the amendments made by section 339 (a) and (b) shall not be applicable with respect to any of the distributive shares of income derived by the taxpayer and the family partners from such taxable year of the partnership, notwithstanding the fact that the provisions of section 339, relative to the retroactive application of the amendments made by section 339 (a) and (b), might otherwise be applicable to some of the partners.

The term "family partner," for purposes of section 339 (c), means any person who, upon the filing of the consent described above, would be liable for a deficiency attributable to income which, but for the application of the amendments made by section 339 (a) and (b), would be considered as income of the taxpayer.

SECTION 340. WAR LOSSES

This section, for which there is no corresponding provision in the House bill, amends section 127 (c) and (d) of the code to provide an alternative treatment of war loss recoveries, in lieu of the rules stated in the present section, if the taxpayer elects to have such alternative method apply.

Subsection (a) amends section 127 (c), relating to recoveries included in gross income. Paragraph (1) of amended subsection (c) provides that upon the recovery in the taxable year of any money or property in respect of property considered under subsection (a) as destroyed or seized in any prior taxable year the amount of such recovery shall be included in gross income to the extent provided in paragraph (2), which retains existing law, unless the taxpayer elects under the provisions of paragraph (5) to have such recovery treated in accordance with the provisions of paragraph (3), which embodies the new elective treatment.

Paragraph (3) provides new rules for determining (a) the amount of a war loss recovery; (b) the amount of the adjustment to be made to the tax for the taxable year of the recovery in respect of prior deductions on account of property considered under subsection (a) as destroyed or seized; (c) the treatment of that part of the recovery which is in excess of allowable deductions in prior taxable years; and (d) a special rule for the inclusion of recoveries in gross income for certain purposes. Subparagraph (A) states the rule for valuing the amount of the recovery in the taxable year. If the same property or interest considered under subsection (a) as destroyed or seized is recovered, the fair market value of such property or interest shall not exceed the adjusted basis (for determining loss) of such property or interest in the hands of the taxpayer on the date of the loss. For example, the taxpayer on December 11, 1941, owned Blackacre, a property located in Germany. The adjusted basis of such property in the hands of the taxpayer on such date was \$1,000,000. Under section 127 (a) such property was deemed destroyed or seized in the year 1941 and the taxpayer's loss of \$1,000,000 was an allowable deduction for such year whether or not the taxpayer claimed such deduction. A recovery in respect to such loss is, under section 127 (c), required to be taken into account. Assume that in 1946 the

taxpayer recovers this property and that on the date of recovery it has a fair market value of \$2,000,000. If the taxpayer elects to proceed under the provisions of paragraph (3), the amount of the recovery respecting this property would be the amount of the adjusted basis as of the date of loss, \$1,000,000. If in lieu of recovering the particular property which was deemed destroyed or seized the taxpayer receives another property in indemnity or substitution therefor and such other property has a fair market value on the date of the recovery of \$2,000,000, that amount is to be considered the amount of the recovery in respect of the property deemed destroyed or seized, since the property recovered was not the property which was actually lost.

Subparagraph (B) provides the adjustment which is to be made to the tax in the taxable year of a recovery to which paragraph (3) is made applicable pursuant to the taxpayer's election. That part of the amount of the recovery which is not in excess of the allowable deductions in prior taxable years on account of the destruction or seizure of the property in respect of which the recovery is received, minus the aggregate amount of any prior recovery in respect of the same property, is not included in gross income for the taxable year of the recovery. In lieu of including any amount in gross income there is to be added to, and assessed and collected as part of, the tax imposed by chapter 1 for the taxable year of the recovery, the aggregate increase in the tax under chapter 1 and chapter 2 for all taxable years which would result from a decrease in such allowable deductions in prior taxable years by an amount equal to such part of the recovery. The increase in the tax for each taxable year resulting from a determination of the amounts resulting from adjustment in the amount of the allowable deductions in the prior taxable years is to be computed in accordance with regulations prescribed by the Secretary.

Subparagraph (B) provides that the regulations shall give effect to previous recoveries of any kind with respect to any prior year, and shall provide for the case where there was no tax for the prior year, but shall otherwise treat the tax previously determined for any year in accordance with the principles set forth in section 3801 (d) of the code. All credits allowable against the tax for any year and all carry-overs and carry-backs affected by so decreasing the allowable deductions shall be taken into account in computing the increase in the tax for the year in which the property was recovered. It is contemplated that the regulations will provide rules applicable to the diverse situations which can arise in those cases where an election made by the taxpayer for the application of paragraph (3) will apply to some, but not all, of the taxable years during which recoveries were had by the taxpayer.

Subparagraph (C) provides that to the extent the amount of any recovery in respect of property considered under subsection (a) as destroyed or seized is not subject to the provisions of subparagraph (B) such amount shall be considered for the taxable year of the recovery as gain on the involuntary conversion of property as the result of its destruction or seizure and shall be recognized or not recognized as provided in section 112 (f). This rule is applicable where the amount of the recovery as determined under subparagraph (A) exceeds the allowable deductions in prior taxable years on account of the destruction or seizure of the property.

Subparagraph (D) contains a special rule which provides that for the purposes of section 51, relating to the requirement of individual returns, section 52, relating to the requirement of corporation returns, and section 3801 (b), relating to inclusions and exclusions from gross income in making the adjustments required by such section, the recovery in the taxable year of any money or property in respect of property considered under subsection (a) as destroyed or seized in any prior taxable year shall be deemed to be an item includible in gross income for the taxable year in which the recovery is made.

Paragraph (4) of section 127 (c) provides that for the purpose of subsection (c) the restoration in whole or in part of the value of any interest described in subsection (a) (3), relating to investments referable to destroyed or seized property, by reason of any recovery of money or property in respect of property to which such interest related and which was considered under subsection (a) as destroyed or seized shall be deemed a recovery of property in respect of property considered under subsection (a) as destroyed or seized. This is the same rule contained in section 127 (c) (3) of existing law. This section of the bill, however, adds a sentence which provides that in applying paragraph (3) such restoration shall be treated as a recovery of the same interest considered under subsection (a) as destroyed or seized.

Paragraph (5) provides for the election by the taxpayer for the application of the provisions of paragraph (3). Such election is to be made in accordance with regulations prescribed by the Secretary. If the taxpayer elects to have the provisions of paragraph (3) applicable to any taxable year in which he recovered any money or property in respect of property considered under subsection (a) as destroyed or seized, the provisions of paragraph (3) shall be applicable to all taxable years of the taxpayer beginning after December 31, 1940, other than a taxable year for which at the time of making such election a refund or credit of the entire amount of any overpayment (resulting from an application of paragraph (3) to such year) would be prevented by section 322 or by the provisions of any other law or rule of law. Thus, if the application of paragraph (3) to a taxable year would result in an overpayment of \$10,000, and by reason of the limitations contained in section 322 (b) (2) (B) of the code only \$4,000 of the overpayment could be refunded upon the filing (at the time of the making of the election) of a claim for refund, the provisions of paragraph (3) would not apply to such year, and the basis of the property recovered in that year would continue to be determined under the existing provisions of section 127 (d) of the code. Paragraph (5) further provides that if the provisions of paragraph (3) are applicable to any taxable year pursuant to the taxpayer's election, the time for the assessment and collection of—

(a) the amount to be added to the tax for such year under the provisions of paragraph (3), and

(b) any deficiency for such year or for any other taxable year, if and to the extent such deficiency is attributable to the redetermination of the basis of the recovered property under the provisions of subsection (d) (2) as amended by this section, shall not expire prior to the expiration of 2 years following the time of the making of such election. Such amount and such deficiency may be assessed at any time prior to the expiration of such period,

notwithstanding any law or rule of law which would otherwise prevent such assessment. No interest shall be assessed or collected with respect to the amount specified in clause (a) or with respect to any deficiencies specified in clause (b) for any period prior to the expiration of 6 months following the date of the making of the election by the taxpayer; nor shall interest be paid on any overpayment resulting from the making of such election, in the case of any taxable year ending before the date of the making of such election, for any period prior to the expiration of such 6-month period.

Subsection (b) of this section amends section 127 (d), relating to the basis of recovered property. Subsection (d) (1) as amended provides that the adjusted basis of property recovered in respect of property considered as destroyed or seized under subsection (a) shall be determined under subsection (d). The rule contained in paragraph (1) for the determination of the unadjusted basis of property is the same as that provided by existing law. Paragraph (2) provides a new and different rule if property is recovered in a taxable year to which the provisions of section 127 (c) (3) are applicable pursuant to an election made under the provisions of section 127 (c) (5). In such case, in lieu of the amount determined under paragraph (1) (which states the rule of existing law), the basis of the property shall be an amount equal to the value at which such property is included in the amount of the recovery under section 127 (c) (3) (A), reduced by such part of the gain under section 127 (c) (3) (C) which is not recognized under section 112 (f).

Subsection (c) of this section amends section 131 (a), relating to the allowance of credit for taxes of foreign countries and possessions of the United States, to provide that the foreign tax credit shall not be allowed against the additional tax imposed for the taxable year under the provisions of section 127 (c) (3) (B), as amended. Thus, if such provisions are applicable to a taxable year and pursuant thereto an increase in the tax imposed for such year is to be added to the tax, a foreign tax credit may not be allowed against the amount of such increase.

The amendments made by this section are applicable to taxable years beginning after December 31, 1940.

SECTION 341. DEDUCTION OF EXPENDITURES FOR MINE EXPLORATION

This section, for which there is no corresponding provision in the House bill, amends section 23 of the Internal Revenue Code (relating to deductions from gross income) by adding a new subsection (ff) thereto.

Paragraph (1) of such subsection provides that expenditures paid or incurred during the taxable year for the purpose of ascertaining the existence, location, extent, or quality of any deposit of ore or mineral, and paid or incurred prior to the beginning of the development stage of the mine or deposit, shall be allowed as deductions in computing net income for the taxable year except to the extent that such expenditures exceed \$75,000. The yearly limitation of \$75,000 applies to all such described expenditures of the taxpayer and is not a total amount allowable with respect to each separate mine or deposit. A 4-year limitation is applicable, as described hereinafter.

This subsection, however, is applicable only to expenditures described and which, but for this subsection, would not be allowable as a deduction for the taxable year. Those expenditures that would be allowable without reference to this subsection continue to be allowable to the same extent as under existing law and are not to be taken into account in computing the \$75,000 limitation. This subsection, also, is applicable only to expenditures paid or incurred prior to the beginning of the development stage of the deposit, or mine relating to such deposit. The determination of the beginning of the development stage is to be made, as under existing law, by reference to the time when the existence of ores or minerals in commercially marketable quantities is disclosed.

This subsection does not apply to expenditures for the acquisition or improvement of property of a character which is subject to the allowance for depreciation provided in section 23 (1) of the code, but allowances for depreciation shall be considered, for the purposes of this subsection, as expenditures paid or incurred. This subsection, also, does not apply to expenditures for the purpose of ascertaining the existence, location, extent, or quality of any deposit of oil or gas.

Paragraph (2) of the subsection provides that, at the election of the taxpayer in accordance with regulations prescribed by the Secretary, he may treat as deferred expenses any portion of the amount deductible under paragraph (1). Such portion so treated shall not be deductible under paragraph (1) but shall be deductible on a ratable basis as the units of produced ores or minerals discovered or explored by reason of such expenditures are sold. An election made under this paragraph for any taxable year shall be binding for such year.

In order to determine the amount of the deduction allowable for any taxable year under paragraph (2), it will be necessary to estimate the number of units, discovered or explored by reason of such expenditures, in the reserve of the mine or deposit at the close of such taxable year. This estimate is, of course, subject to revision in the event it is ascertained as the result of operation or development work that the remaining recoverable units are materially greater or less than the number remaining from a prior estimate. As these units are produced and sold, the amount of such expenditures to be deducted will be an amount which is in the same proportion to the total amount of such expenditures with respect to which an election under paragraph (2) has been made as the number of units sold is to the number of units in the reserve.

The deductions allowable under this subsection are not, of course, subject to disallowance under section 24 (a) (2).

This subsection is applicable only to a taxpayer who has paid or incurred expenditures of the type described therein and accordingly has no application to that part of the cost of a mine or deposit attributable to such expenditures when acquired by purchase. The subsection intends that where a taxpayer has paid or incurred such expenditures, has made an election under paragraph (2), and has thereafter leased the mine or deposit, retaining a royalty interest therein, the taxpayer is to be allowed the ratable deduction provided in paragraph (2).

Paragraph (3) of the subsection provides that the subsection shall not apply to any amounts paid or incurred in any taxable year if in any four preceding years (not necessarily consecutive years) the tax-

payer, or any individual or corporation (who has transferred to the taxpayer any mineral or ore property under circumstances which make the provisions of par. (7), (8), (11), (13), (15), (17), (20), or (22) of sec. 113 (a) of the code applicable to such transfer), has (1) been allowed a deduction under paragraph (1) of the subsection, or (2) made the election provided under paragraph (2) of the subsection. Thus, for example, if a taxpayer who makes his return on a calendar-year basis takes a deduction under the subsection in each of the years 1952, 1953, 1954, and 1956, he will not be entitled to any deduction under the subsection for 1957, or any other subsequent taxable year. This is true even though the amount of the deduction taken in each such year is for less than the \$75,000 annual ceiling.

Paragraph (4) provides that the amount of the expenditures which are to be deferred and deducted ratably under the election provided in paragraph (2) shall be taken into account in determining the adjusted basis of the mine or deposit. However, no amount of such deferred expense shall be included in the adjusted basis of the property for the purpose of computing a deduction for depletion under section 114 of the code.

Subsection (b) of this section of the bill amends section 113 (b) (1) of the code (relating to adjusted basis of property) to add a new subparagraph (M) thereto. This subparagraph provides that the basis of a mine or deposit shall be adjusted for amounts allowed as deductions as deferred expenses under section 23 (ff) (2) of the code to the extent such deductions resulted in a reduction of the taxpayer's taxes under chapter 1 of the code, but not less than the amounts allowable under such section for the taxable year and prior years. No adjustments are to be made for such deductions, however, in determining the adjusted basis of the property for the purpose of computing a deduction for depletion under section 114 of the code.

Subsection (c) of this section of the bill provides that the amendments made by this section shall be applicable only with respect to taxable years ending after December 31, 1950.

SECTION 342. CORPORATE LIQUIDATIONS

This section, for which there is no corresponding provision in the House bill, amends section 115 of the code by adding a new subsection (n) which states a special rule for the treatment of gain upon the complete liquidation of a corporation where the distribution in liquidation includes stock in another corporation to which unimproved real estate has been transferred in anticipation of such liquidation. The new subsection (n) provides that if pursuant to a plan of liquidation a corporation (1) transfers part of its assets consisting of unimproved real estate to a newly organized corporation in exchange solely for the entire stock of the new corporation, and (2) within a period of 24 months from the date of the adoption of the plan of liquidation distributes in complete liquidation all its assets including the stock in the new corporation, the amounts distributed shall be treated as distributions in complete liquidation of the old corporation, and none of such distributions is to be treated as having been made in pursuance of a plan of reorganization and subject to the provisions of section 112 (c) (2). Thus, the entire recognized gain, if any, to the shareholders of the old corporation shall be treated as capital gain

and no part of such gain shall be taxed as a dividend to the shareholders of the old corporation, notwithstanding any other provisions of chapter 1 of the code, including section 112 (c) (2). In other words, if in connection with the transaction described above all or part of the gain recognized upon the liquidation of the old corporation would otherwise be treated as the distribution of a taxable dividend and taxed as a dividend to the shareholders under the provisions of section 112 (c) (2), the new subsection (n) provides that in lieu of taxing such part of the gain as a taxable dividend to the shareholders, all of the gain shall be taxed as capital gain.

The benefit of section 115 (n) apply only if (1) the business of the old corporation is discontinued, (2) the new corporation to which the unimproved real estate is transferred was organized and is operated solely for the purpose of holding title to such real estate and collecting income from the leasing or sale thereof, and (3) there was a sound business reason for organizing such new corporation to hold title to the unimproved real estate.

The amendment made by this section applies to taxable years beginning after December 31, 1947.

SECTION 343. DEFINITION OF EMPLOYEE

This section, for which there is no corresponding provision in the House bill, adds a new paragraph (20), applicable to taxable years beginning after 1938, to section 3797 (a) of the code to provide in substance that a full-time life-insurance salesman shall be considered to be an "employee" for the purpose of applying the provisions of chapter 1 (such as secs. 22 (b) (2) (B), 23 (p), and 165) which determine the effect of contributions for the benefit of, and distributions to, "an employee" under a stock bonus, pension, profit-sharing, or annuity plan.

Section 165 (b) provides in substance that periodic distributions made to an employee by a pension or profit-sharing trust which conforms to the requirements of section 165 are taxed to the recipient as received in the same manner as annuity payments. However, since a full-time life-insurance salesman is not considered, under existing law, to be an "employee," the provisions of section 165 do not apply with respect to a trust for his benefit.

Under your committee's amendment, such a full-time life-insurance salesman is accorded the status of an employee for purposes of the application of section 165 if he is classified as an employee for purposes of the Federal old-age and survivor's insurance system or if, in the case of services performed before January 1, 1951, he would have been so classified if the services were performed in 1951.

TITLE IV—EXCISE TAXES

PART I—TAX ON ADMISSIONS AND CABARETS

SECTION 401. REMOVAL OF TAX ON FREE ADMISSIONS

As it passed the House, this section of the bill amends section 1700 (a) (1) of the code by striking out the second and fourth sentences thereof. The second sentence provides that persons (except bona fide

employees, municipal officers on official business, and children under 12 years of age), admitted free or at reduced rates, shall pay the same tax as persons paying the regular admission charge. Thus, by striking out this sentence, there will be no tax on free admissions, and with respect to admissions at reduced rates, the tax will be determined by the first sentence of section 1700 (a) (1), as amended by section 1650, which imposes on admissions a tax of 1 cent for each 5 cents or major fraction thereof. The fourth sentence (relating to exemption from tax by regulation in the case of free admission of certain hospitalized veterans and members of the Armed Forces) of such section is stricken as surplusage upon the elimination of the second sentence. Your committee has further amended section 1700 (a) (1) by striking out the fifth sentence which was added thereto by Public Law 124, approved August 24, 1951. The fifth sentence of section 1700 (a) (1) provides for an exemption from tax in the case of free admission of members of the Armed Forces. This fifth sentence becomes surplusage upon the elimination of the second sentence.

SECTION 402. EXEMPTIONS FROM ADMISSIONS TAX

As it passed the House, subsection (a) of this section reinstates the applicability of section 1701 of the Internal Revenue Code, which exempted prior to October 1, 1941, certain admissions from the admissions tax. Your committee has retained this subsection.

As it passed the House, subsection (b) of this section amends section 1701 (a) of the code so as to retain certain of the exemptions from the admissions tax which existed prior to October 1, 1941.

Under the amendments made by the House bill to section 1701 (a), the admissions tax would apply to:

1. Admissions to all athletic games or exhibitions except those where the proceeds inure exclusively to the benefit of an elementary or secondary school. Under the pre-1941 law the exemption from the admissions tax was denied only with respect to admissions to such events the proceeds of which inured wholly or partly to the benefit of a college or university.

2. Admissions to all wrestling matches, prize fights, or boxing, sparring, or other pugilistic matches or exhibitions, regardless of to whom the proceeds are payable. Under the pre-1941 law admissions to such exhibitions were in some cases exempt from tax.

3. Admissions to carnivals, rodeos, or circuses in which any professional performer or operator participates for compensation. There was no corresponding provision in the pre-1941 law.

Your committee has retained the amendments made by the House as they relate to the admissions listed above and, in addition, has further provided that the admissions tax will apply to admissions to any motion-picture exhibition, regardless of to whom the proceeds are payable, and the character of the person or organization sponsoring such a motion-picture exhibition.

Subsection (b), as it passed the House, eliminated from the pre-1941 exemptions (1) the exemption with respect to admissions all the proceeds of which inure exclusively to the benefit of societies or organizations conducted for the sole purpose of improving any city, town, village, or other municipality, and (2) the exemption with respect to admissions all the proceeds of which inure exclusively to the

benefit of persons in the military or naval forces of the United States or to persons who have served in such forces and are in need. Your committee has retained the House amendments with respect to these activities, and, in addition, has provided for the elimination of the pre-1941 exemptions in the case of admissions all the proceeds of which inure exclusively to the benefit of societies for the prevention of cruelty to children or animals. The exemption previously afforded to societies or organizations conducted for the sole purpose of maintaining a cooperative or community center moving-picture theater has also been eliminated by your committee.

Under pre-1941 law the exemption from tax applied to admissions where the proceeds inured exclusively to the benefit of members of the police or fire department of any city, town, village, or other municipality or the dependents or heirs of such members. Under the amendment passed by the House the proceeds must inure exclusively to the benefit of a police or fire department (including a volunteer fire department) of any such locality or exclusively to a fund for the sole benefit of members of a police or fire department or the dependents or heirs of such members. Your committee has further limited this exemption so that the proceeds must inure exclusively to the benefit of a police or fire department of any city, town, village, or any municipality or exclusively to a retirement, pension, or disability fund for the sole benefit of members of such a police or fire department or to a fund for the heirs of such members.

Under pre-1941 law opera companies were exempted as educational institutions. The same result was contemplated under the bill as passed by the House. Your committee has included a specific exemption from the admissions tax where the proceeds of the admission inure exclusively to a society or organization conducted for the sole purpose of maintaining symphony orchestras or operas, and receiving substantial support from voluntary contribution.

Under the House bill, as under section 1701 prior to October 1, 1941, the exemption from tax applies if the proceeds of the admissions inure exclusively to the benefit of religious, educational, or charitable institutions. Your committee, however, proposes to limit the exemptions to certain defined classes of institutions within these categories. Under the amendment proposed by your committee, religious institutions are restricted to churches or conventions or associations of churches. An educational institution, to be exempt, must have a regular faculty and curriculum, and a regular student body at the place where the educational activities are carried on. A charitable institution, in order to qualify for exemption, must be supported, in whole or in part, by funds contributed by the United States or any State or political subdivision thereof, or must be primarily supported by contributions from the general public. For the exemption to attach in the cases of either an educational institution or a charitable institution, such institution must be exempt from income tax under section 101 (6).

Subsection (b), as it passed the House, would reinstate the pre-1941 exemption granted under section 1701 (b) of the code to admissions to agricultural fairs and to admissions to any exhibit, entertainment, or other pay feature conducted by the fair association as part of the fair. Your committee has amended section 1701 (b) to limit the exemption to the general admission charge to the fair only, and to

eliminate the specific exemption to charges for admission to any exhibit, entertainment, or other pay feature put on as part of such fair.

Subsection (c) of this section, as it passed the House, adds a new subsection (d) to section 1701 of the code. This new subsection grants an exemption covering admissions to facilities for physical recreation, such as swimming pools, bathing beaches, and skating rinks (including exhibitions and tournaments conducted at such facilities) operated by, and with the entire proceeds inuring to, States and political subdivisions thereof, such as counties and cities, or the United States, and agencies and instrumentalities of the foregoing. The new exemption does not encompass spectator facilities, such as zoos and aquariums. Your committee has retained this exemption.

In addition, your committee has also provided for the addition of a new subsection (e) to section 1701 of the code. Subsection (e) (1) grants an exemption from the admissions tax covering admissions to a home or garden which is temporarily opened to the general public as part of a program conducted by a society or organization to permit the inspection of historical homes and gardens. Subsection (e) (2) grants an exemption from the admissions tax covering admissions to historic sites, houses, and shrines, and museums conducted in connection therewith, maintained and operated by a society or organization devoted to the preservation of such places. To qualify for the exemption under the new subsection (e) no part of the net earnings of the society or organization conducting the home or garden tour program, or maintaining or operating such historic sites, houses, and so forth, may inure to the benefit of any private stockholder or individual.

SECTION 403. EFFECTIVE DATE OF AMENDMENTS RELATING TO ADMISSIONS

This section is the same as section 403 of the House bill and provides that the amendments made by sections 401 and 402 shall apply to amounts paid on or after the first day of the first month which begins more than 10 days after the date of the enactment of this act for admissions on or after such first day.

SECTION 404. TAX ON CABARETS, ROOF GARDENS, ETC.

This section, which is identical with section 404 of the House bill, amends section 1700 (e) (1) of the code to exempt from the cabaret tax bona fide dance halls, ballrooms, and other similar places where the serving or selling of food, refreshments, or merchandise is merely incidental to the music and dancing privileges furnished unless the conduct of the place is such as to bring it within the normal concept of a roof garden, cabaret, or similar place. This determination will be made by reference to the over-all operation of the establishment, including such factors as the relative income from the several activities over a period of time, the relative portion of space devoted to the various activities, the type of refreshments served or sold, the scope and character of the entertainment furnished, and the hours of operation.

The purpose of this amendment is to make it clear that the principles set forth by the district court in the case of *Geer v. Birmingham* (88 F. Supp. 189) are controlling in the determination of whether the establishment involved is operating as a cabaret or as a dance hall, and to

avoid the broad construction placed upon the statute in the case of *Avalon Amusement Corporation v. United States* (165 F. 2d 653) and in the court of appeals decision reversing the decision of the district court in the Geer case (*Birmingham v. Geer*, 185 F. 2d 82), which require that dance halls and similar establishments be taxed as cabarets, even though the serving or selling of food, refreshments, or merchandise is merely incidental.

The amendment made by this section shall take effect at 10 a. m. on the first day of the first month which begins more than 10 days after the date of the enactment of this act.

PART II—TAX ON CIGARETTES

SECTION 421. TAX ON CIGARETTES

Subsection (a) of this section as it passed the House amends section 2000 (c) (2) of the code (relating to the tax on cigarettes) to increase the rate of tax with respect to cigarettes weighing not more than 3 pounds per thousand from \$3.50 to \$4 per thousand. Your committee has amended this section to provide that the increased rate of tax shall be applicable only until January 1, 1954, at which time the rate of tax with respect to such cigarettes will revert to \$3.50 per thousand, the present rate of tax.

Subsection (b) provides that the increase in the rate of tax made by subsection (a) shall take effect on the first day of the first month which begins more than 10 days after the date of enactment of this act.

SECTION 422. FLOOR STOCKS TAX AND FLOOR STOCKS REFUND ON CIGARETTES

As passed by the House, this section amends section 2000 of the code (relating to the tax on tobacco, etc.) by adding a new subsection (f) which imposes a floor stocks tax equal to the increase in the tax made by section 421 (a) with respect to cigarettes weighing not more than 3 pounds per thousand which are held for sale on the day the increased rate of tax on such cigarettes takes effect.

Your committee has retained this amendment but has added an additional subsection (g) to section 2000 of the code. This added subsection provides for a credit or refund (without interest), on cigarettes weighing not more than 3 pounds per thousand which on January 1, 1954, are held and intended for sale or are in transit to the United States on which tax has been paid, in an amount equal to the difference between the tax paid on such cigarettes (including floor stocks tax) and the tax made applicable to such cigarettes on January 1, 1954. To be entitled to credit or refund, such cigarettes must, on January 1, 1954, be held and intended for sale; the person so holding the cigarettes must, prior to April 1, 1954, file claim for credit or refund; and he must also make, keep, and file records as required both before and after January 1, 1954 (but not extending beyond 1 year thereafter), and must establish to the satisfaction of the Secretary, with respect to cigarettes of the class for which credit or refund is claimed by him under this subsection, that on and after January 1, 1954, and before April 1, 1954, the price at which cigarettes of such class were sold (until a number equal at least to the number on hand

at the first moment of January 1, 1954, were sold) reflected, in such manner as the Secretary may by regulations prescribe, the amount of the tax reduction. The Secretary will, under the regulations, establish a system for making credit or refund where the benefit of the tax reduction is passed on to the consumer. The regulations may prescribe the method of arriving at the price at which such cigarettes were sold before the tax reduction, and may also prescribe the method of ascertaining the reduced price reflecting the tax reduction, if a credit or refund is to be allowed. Credit or refund is not to be allowed under this subsection with respect to the cigarettes in respect to which credit or refund is claimed unless the requirements of the subsection and the regulations are satisfied.

SECTION 423. REDUCTION OF TAX ON SNUFF AND CHEWING TOBACCO

This section, which your committee has added to the House bill, amends section 2000 (a) of the code, relating to the tax on tobacco and snuff.

Subsection (a) of this section amends existing law so as to change the rate of tax on all snuff and chewing tobacco from 18 cents per pound to 10 cents per pound, but retains the present tax rate of 18 cents per pound on all smoking tobacco. Under this amendment a tax of 10 cents per pound would be imposed on snuff of all descriptions, and on all chewing tobaccos.

Subsection (b) provides that the changes in the tax rates made by subsection (a) shall take effect on the first day of the first month which begins more than 10 days after the date of the enactment of this Act.

PART III—RETAILERS' EXCISE TAXES

SECTION 431. RETAILERS' EXCISE TAX ON TOILET PREPARATIONS

This section, which is identical with section 432 of the House bill, amends section 2402 (a) of the code (relating to the tax on toilet preparations) by adding at the end thereof a new sentence to exempt from the tax thereby imposed toilet articles intended to be used or applied only in the care of babies. The determination of whether toilet articles are intended to be used or applied only in the care of babies will be made only by reference to the advertising with respect to, and the labeling contained on, the article. If an article is advertised and labeled as being for use in the care of babies and is not advertised or labeled as usable by persons other than babies the article is exempt from tax even though the particular purchaser buys it for adult use. On the other hand, an article which is represented by advertising or labeling as fit for adult use in addition to use in the care of babies will not be exempt from tax even though sold to a purchaser who intends to use the article only in the care of babies.

Under existing law toilet articles sold to a beauty parlor, barber shop, or similar establishment for use in the operation thereof are taxable when sold. Articles sold to such establishments for resale are not taxable until sold by them. Under existing procedures these

establishments must submit exemption certificates to their vendors in order that toilet articles may be purchased tax-free for resale. Articles procured by such establishments tax-free for resale and actually used in operation of the place are taxable when first set apart for such use. Under the amendment made by section 431 (b) to section 2402 (b) of the code, toilet articles sold to such establishments, for resale or for use in the operation thereof, are exempted from tax. The resale of toilet articles at retail by such establishments will continue to be taxable, as under present law.

SECTION 432. EFFECTIVE DATE OF PART III

This section, which is the same as section 433 of the House bill, provides that the amendments made by part III (relating to retailers' excise taxes) shall apply only to articles sold on or after the first day of the first month which begins more than 10 days after the date of enactment of this act.

PART IV—LIQUOR

SECTIONS 441, 442, AND 443. DISTILLED SPIRITS, WINES, AND FERMENTED MALT LIQUORS

These sections are the same as sections 451, 452, and 453 of the House bill, except that provision is made for the elimination of the proposed increase in rates on and after January 1, 1954. These sections increase the rates of tax on distilled spirits, wines, and fermented malt liquors. The proposed increases are as follows: Distilled spirits, from \$9 to \$10.50 per proof gallon; still wines not over 14 percent alcohol, from 15 to 17 cents per gallon; still wines over 14 percent and not over 21 percent of alcohol, from 60 to 67 cents per gallon; still wines over 21 percent and not over 24 percent of alcohol, from \$2 to \$2.25 per gallon; sparkling wines, from 15 to 17 cents per one-half pint; artificially carbonated wines, from 10 to 12 cents per one-half pint; liqueurs, cordials, and similar compounds containing fortified sweet wine or fortified fruit or berry wines, from 10 to 12 cents per one-half pint; fermented malt liquors from \$8 to \$9 per barrel. These sections also impose equalizing floor stocks taxes on tax-paid distilled spirits and tax-paid wines held for sale or for use in the manufacture of any article intended for sale on the date the increased rates become effective; and on all tax-paid fermented malt liquors held for sale on the date the increased rate becomes effective. Provisions similar to those contained in the Revenue Act of 1943 are made for the filing of floor stocks tax returns and for the payment of such tax. Section 441 also increases the rate of tax on imported perfumes containing distilled spirits from \$9 to \$10.50 per wine gallon.

SECTION 444. FLOOR STOCKS REFUNDS

This section deals with refunds applicable with respect to alcoholic liquors upon the termination of the tax rate increases proposed for these products in the bill. It amends section 1656 (a) and (b) of the code. The House bill did not provide for a termination date for the proposed rate increases and, accordingly, made no provisions of refunds on the rate reduction date.

Section 1656 (a) and (b) of the code, as amended by this section, covers alcoholic liquors, including distilled spirits, imported perfumes containing distilled spirits, wines, including liqueurs and cordials, and fermented malt liquors. It provides for credit or refund (without interest) of the excess of the taxes (including floor stocks taxes) paid with respect to such liquors on account of the higher rates imposed by this bill over the taxes that would have been payable in the absence of the increased rates provided by this bill. To be entitled to credit or refund, the liquor must, on January 1, 1954, be held for sale or for use in the manufacture or production of an article intended for sale; the person so holding it must, prior to February 1, 1954, file claim for credit or refund; and he must also make, keep, and file records as required, and must establish to the satisfaction of the Secretary, with respect to each kind of article for which credit or refund is claimed by him under this section, that after December 31, 1953, and before April 1, 1954, the price at which articles of such kind were sold (until a number equal at least to the number on hand on January 1, 1954, were sold) reflected, in such manner as the Secretary may by regulations prescribe, the amount of the tax reduction. Under this section the Secretary will be authorized, under regulations, to establish a system for making credit or refund where the benefit of the tax reduction is passed on to the consumer. The regulations may prescribe the method of arriving at the price at which the article was sold before the tax reduction. The regulations may also prescribe the method of ascertaining the reduced price reflecting the tax reduction, if a credit or refund is to be allowed.

SECTION 445. CLERICAL AMENDMENT

This section is the same as section 454 of the House bill. The section amends section 1650 (relating to war tax rates on certain miscellaneous taxes) by striking out the provisions thereof relating to distilled spirits, imported perfumes containing distilled spirits, wines, and fermented malt liquors.

SECTION 446. EFFECTIVE DATE OF PART IV

This section is the same as section 455 of the House bill. The section provides that the amendments made by this part shall take effect on the first day of the first month which begins more than 10 days after the date of enactment of this act.

PART V—OCCUPATIONAL TAXES

SECTION 451. OCCUPATIONAL TAXES ON DEALERS IN LIQUORS

This section increases the rates of occupational taxes on wholesale dealers in liquors, retail dealers in liquors, and wholesale dealers in malt liquors. The proposed increases are as follows: Wholesale dealers in liquors, from \$110 to \$200; retail dealers in liquors, from \$27.50 to \$50; and wholesale dealers in malt liquors, from \$55 to \$100. The section is the same as section 461 of the House bill, except that provision is made for the elimination of the proposed increase in rate on and after July 1, 1954.

SECTION 452. DRAW-BACK IN THE CASE OF DISTILLED SPIRITS USED IN THE MANUFACTURE OF CERTAIN NONBEVERAGE PRODUCTS

This section corresponds to section 462 of the House bill. The section has, however, been redrafted to accomplish its objective by amending only section 3250 (l) (5) of the code and to provide for reduction of the amount of draw-back after December 31, 1953, to correspond with the proposed reduction in the rate of tax on distilled spirits on and after January 1, 1954. Subparagraph (5) (A) provides for payment of draw-back at the rate of \$6 per proof gallon with respect to distilled spirits tax-paid at the rate of \$9 per proof gallon prior to the effective date of section 452. Subparagraph (5) (B) provides for payment of draw-back at the rate of \$9.50 per proof gallon with respect to distilled spirits tax-paid at the rate of \$10.50 per proof gallon on and after the effective date of section 452. Subparagraph (5) (C) provides for payment of draw-back at the rate of \$8 per proof gallon with respect to distilled spirits tax-paid at the rate of \$9 per proof gallon after December 31, 1953.

The amendment shall be applicable only with respect to distilled spirits used on or after the first day of the first month which begins more than 10 days after the date of enactment of this act.

SECTION 453. TAX ON COIN-OPERATED GAMING DEVICES

This section, which is the same as section 463 of the House bill, amends section 3267 (a) of the Internal Revenue Code to increase the present rate of the special (occupational) tax thereby imposed with respect to coin-operated gaming devices from \$150 to \$250 per year.

SECTION 454. EFFECTIVE DATE OF PART V

This section is substantially the same as section 465 of the House bill, and provides that the amendments made by sections 451 and 453 shall take effect on the first day of the first month which begins more than 10 days after the date of the enactment of this act. In the case of the year beginning July 1, 1951, where the trade or business on which the occupational tax is imposed was commenced prior to the first day of the month specified in the preceding sentence, i. e., the month which begins more than 10 days after the date of the enactment of this act, the increase in the tax resulting from the amendments made by sections 451 and 453 shall be reckoned proportionately from the first day of such first month to and including the 30th day of June following and shall be due on, and shall be payable on or before, the last day of such specified month.

PART VI—WAGERING

SECTION 461. WAGERING TAXES

This section is identical with section 471 of the House bill. It adds to the Internal Revenue Code a new chapter entitled "Chapter 27A—Wagering Taxes," which imposes on wagers a tax equal to 10

percent of the amount thereof, and a special (occupational) tax of \$50 per year on each person who is liable for the tax on wagers or who is engaged in receiving wagers for or on behalf of any person so liable. For a detailed discussion of these new taxes, see the explanation beginning on page 112 of the first part of this report.

SECTION 462. EFFECTIVE DATE OF PART VI

This section, which is the same as section 472 of the House bill, provides that the tax imposed on wagers by subchapter A of chapter 27A of the Internal Revenue Code, as added by section 461, shall apply only with respect to wagers placed on or after the first day of the first month which begins more than 10 days after the date of enactment of this act. The section further provides that the occupational tax imposed by subchapter B of chapter 27A of the code, as added by section 461, shall not be payable with respect to any period prior to the first month which begins more than 10 days after the date of enactment of this act. It is also provided that in the case of any person who is liable for tax under subchapter A of chapter 27A, or who is engaged in receiving wagers for or on behalf of any person so liable, and who commenced the activity which makes him subject to such tax, or who was engaged in receiving such wagers, prior to the first day of the first month specified in the preceding sentence, i. e., the month which begins more than 10 days after the enactment of the act, the tax under subchapter B of chapter 27A shall be reckoned proportionately from the first day of such month to and including the 30th day of June following and shall be due on, and payable on or before, the last day of such specified month.

PART VII—MANUFACTURERS' EXCISE TAXES

SECTION 471. AUTOMOBILES, TRUCKS, AND PARTS OR ACCESSORIES

This section is similar to section 481 of the House bill with the exception that your committee has amended subsections (a), (b), and (c) thereof to provide that the increases in rates of tax made by the House bill shall be applicable only until January 1, 1954, at which time the rates of tax now in effect under section 3403 of the code will be applicable. Also, your committee has eliminated the tax upon house trailers and parts and accessories sold on or in connection therewith. Under the House bill the present 7-percent tax upon such items would be continued.

Subsections (a) and (b) of this section respectively amend section 3403 (a) of the code to increase the manufacturers' excise tax from 5 to 8 percent on automobile trucks and other items included in section 3403 (a), and on passenger automobiles and all items now included in section 3403 (b) from 7 to 10 percent, except chassis and bodies for house trailers (including parts or accessories therefor sold on or in connection therewith or with the sale thereof), which will be exempt from tax.

Subsection (c) amends section 3403 (c) of the code to increase the tax on parts or accessories for any of the articles enumerated in section 3403 (a) and (b) of the code from 5 to 8 percent.

Subsection (d) adds a new sentence at the end of such section 3403 (c) to provide that in determining the sale price of a rebuilt automobile part or accessory, there shall be excluded from the price, in accordance with regulations prescribed by the Secretary, the value of a like part or accessory accepted in exchange.

Subsection (e) is a technical amendment of section 3403 (e) to provide rates of credit allowable to manufacturers for tax-paid tires, inner tubes, or automobile radio or television receiving sets used in the manufacture of automobiles, etc., equal to the rates of tax imposed on automobiles, etc.

Subsection (f) amends section 3443 (a) (3) (A) by adding a new clause (vi) to provide a credit or refund to a manufacturer of automobile parts or accessories when a part or accessory (other than spark plugs, storage batteries, leaf springs, coils, timers, and tire chains) is resold for use as a replacement part for farm equipment. Under existing procedure a farm equipment manufacturer may buy for use as component parts of such equipment, parts or accessories primarily designed for automotive use (other than spark plugs, storage batteries, leaf springs, coils, timers, and tire chains) under a certificate of intent to use them as original equipment, but may not buy automobile parts or accessories tax-free for resale for repair or replacement purposes on nontaxable articles. Thus, under the amendment a credit or refund is allowable with respect to those parts or accessories which under existing law and procedures may be sold tax-free to the manufacturer of the original nontaxable equipment.

The credit or refund may not be allowed under section 3443 (a) (3) (A) (vi) with respect to spark plugs, storage batteries, leaf springs, coils, timers, and tire chains or with respect to any part or accessory taxable under section 3403 (c) resold for use as repair or replacement parts for any of the articles taxable under section 3403 (a) and (b) of the code.

Subsection (g) provides that the amendment made by subsection (f) shall be effective with respect to articles purchased by the user thereof on or after the first day of the first month which begins more than 10 days after the date of the enactment of this act.

Subsection (h) of this section amends section 3400 (a) of the code to exempt from the tax thereby imposed on tires those of all-rubber construction without fabric or metal reinforcement, whether hollow center or solid, if they are not more than 20 inches in diameter and not more than $1\frac{3}{4}$ inches in cross section, and those of extruded tiring with internal wire-fastening agent.

SECTION 472. NAVIGATION RECEIVERS SOLD TO THE UNITED STATES

This section, which is substantially the same as section 482 of the House bill, deals with "communication, detection, or navigation receivers of the type used in commercial, military, or marine installations" hereafter in this paragraph referred to as "navigation receivers." Subsection (a) amends section 3404 (a) of the code to exempt from the tax thereby imposed on radio and television receiving sets, etc., the sale of navigation receivers to the United States for its exclusive use. Subsection (b) amends section 3404 (b) of the code to exempt from the tax thereby imposed on component parts of radio and tele-

vision receiving sets, etc., the sale of any article for use by the vendee as material in the manufacture or production of, or as a component part of, navigation receivers to be sold by him to the United States for its exclusive use. Subsection (c) amends section 3443 (a) (1) of the code to allow a manufacturer or producer of navigation receivers a credit or refund of tax paid on articles taxable under section 3404 (b) purchased for use by him in the manufacture or production of, or as a component part of, navigation receivers if such navigation receivers have been sold by him to the United States for its exclusive use. Subsection (d) amends section 3443 (a) (3) (A) of the code to allow a credit or refund to a manufacturer, producer, or importer of navigation receivers in the amount of tax paid by him with respect to the sale thereof if he has in his possession such evidence as regulations may require that such navigation receivers have been resold to the United States for its exclusive use. Subsection (e) amends section 3444 (b) of the code to exempt from the tax thereby imposed on the use of taxable articles by the manufacturer, producer, or importer thereof, articles taxable under section 3404 (b) used in the manufacture or production of, or as a component part of, navigation receivers sold to the United States for its exclusive use. Subsection (f) specifies the various effective dates of the amendments made by the foregoing subsections.

SECTION 473. TAX-FREE SALES OF REFRIGERATOR COMPONENTS TO WHOLESALERS FOR RESALE TO MANUFACTURERS

This section, which does not appear in the House bill, amends section 3405 (b) of the code to provide for the tax-free sale of refrigerator components (i. e., cabinets, compressors, condensers, condensing units, evaporators, expansion units, absorbers, and controls) by the manufacturer thereof to a wholesaler or dealer for resale to a manufacturer of complete refrigerators, refrigerating or cooling apparatus, or quick-freeze units (hereinafter referred to as "refrigerating equipment"), if such components are in due course so resold. The present law permits the tax-free sale of refrigerator components by the manufacturer thereof to a wholesaler or dealer for resale to a manufacturer of taxable refrigerating equipment. However, such tax-free sales of components to wholesalers for resale to manufacturers of refrigerating equipment may not be made, under present law, if the refrigerating equipment in which the components are used is nontaxable. On the other hand, refrigerator components may be sold tax-free by the manufacturer thereof direct to a manufacturer of refrigerating equipment whether or not such refrigerating equipment is taxable.

Under the amendment proposed by your committee, sales of refrigerator components may be made tax-free to wholesalers and dealers for resale to manufacturers of refrigerating equipment whether or not such refrigerating equipment is taxable.

With respect to tax-free sales of refrigerator components to a wholesaler or dealer under the amendment, the present administrative regulations relating to the tax-free sale of articles for further manufacture of taxable articles will be applicable. Under these administrative regulations, in the case of a sale of refrigerator components by a

manufacturer thereof to a wholesaler or dealer for resale to a manufacturer of refrigerating equipment, the tax liability of the manufacturer of the refrigerator components will be suspended for a period of 2 months pending submission by the wholesaler or dealer to the manufacturer of satisfactory evidence that the components purchased by him tax-free were, in fact, resold to a manufacturer of refrigerating equipment. If the required evidence is not received within the 2-month period, the temporary suspension of liability will cease and the manufacturer of the components sold tax-free will become liable for the tax on such components. If the required evidence is furnished to the manufacturer of the components after the 2-month period has elapsed, a credit or refund is to be allowed with respect to any tax previously paid by the manufacturer on those components originally sold tax-free, but upon which tax was paid at a later date by reason of the termination of the temporary suspension of tax liability.

SECTION 474. SPORTING GOODS

This section corresponds to section 483 of the House bill. As it passed the House section 483 amended section 3406 (a) (1) of the Internal Revenue Code to exclude from the tax on sporting goods the following named items:

- Basketballs
- Boxing gloves and other boxing equipment
- Cricket balls and bats
- Fencing equipment
- Footballs and other football equipment
- Gymnasium equipment and apparatus
- Hockey equipment
- Indoor baseballs and other indoor-baseball equipment
- Lacrosse equipment
- Mass balls
- Pushballs
- Skates
- Snow toboggans and sleds
- Soccer balls
- Softballs and other softball equipment
- Track hurdles
- Vaulting equipment
- Volleyballs and other volleyball equipment
- Water-polo equipment
- Wrestling head-harness

On the items not so excluded, the tax was raised from 10 percent to 15 percent under the House bill.

Your committee has revised the taxable list of sporting goods to exclude from tax baseballs, baseball bats, baseball body protectors and shin guards, baseball gloves and mitts, and baseball masks. However, your committee has reinstated as taxable sporting goods the following items which were excluded from tax under the House bill: Cricket balls and bats, lacrosse equipment, skates, and snow toboggans and sleds. Moreover, your committee has provided that the tax on fishing equipment shall remain at the present rate of 10 percent.

SECTION 475. ELECTRIC, GAS, AND OIL APPLIANCES

This section is similar to section 484 of the House bill. As passed by the House, section 484 amends section 3406 (a) (3) of the code (relating to manufacturers' excise tax on electric, gas, and oil appliances) (1) to include in the list of articles subject to the tax at the rate of 10 percent electric sheets and spreads, and the following appliances of the household type: Electric belt-driven fans; electric or gas clothes driers; electric door chimes; electric dehumidifiers; electric dishwashers; electric floor polishers and waxers; electric food choppers and grinders; electric hedge trimmers; electric ice-cream freezers; electric mangles; electric motion- or still-picture projectors; electric pants pressers; electric shavers; and power lawn mowers; and (2) to remove electric heating pads from the application of such tax. Your committee has retained these amendments, except for the inclusion of electric shavers in the list of taxable articles, and has added thereto the following household appliances: Electric exhaust blowers; electric vacuum cleaners; electric washing machines; and electric garbage-disposal units. In addition, your committee has deleted from the taxable list electric direct motor-driven fans of the industrial type and electric air heaters of the blower type, whether or not designed for household use.

Subsection (b) of this section (which did not appear in the House bill) amends section 3441 (b) of the code (relating to sale price of a taxable article) to make the provisions of such section applicable to a situation where a taxable article is sold at retail under an arrangement whereby the manufacturer negotiates the sale on behalf of the retailer. In such a case the tax shall be computed on the price for which such articles are sold, in the ordinary course of trade, by manufacturers or producers thereof, as determined by the Commissioner. This amendment to section 3441 (b) is to be applicable only in those cases where it is established that the manufacturer has a bona fide plan or method of actually performing substantially all sales negotiations with the consumer, through the efforts of a selling staff trained and directed by the manufacturer.

SECTION 476. PHOTOGRAPHIC APPARATUS

This section corresponds to section 485 of the House bill. As passed by the House, section 485 amends section 3406 (a) (4) of the code to exclude from the application of the tax certain photographic apparatus and film generally used by commercial enterprises and to subject the remaining items to a uniform tax rate of 20 percent. Provision is also made in the House bill for a floor-stocks refund or credit with respect to photographic bulbs held for sale on the effective date of the elimination of the tax on such bulbs.

In lieu of the provisions of the House bill, your committee has amended section 3406 (a) (4) so that a uniform tax rate of 15 percent will apply to all photographic items subject to tax at the present time. Moreover, your committee has added to this section of the code a provision whereby the amount of tax on a sale of unexposed 35-millimeter color positive print motion-picture film shall be computed, in lieu of, on the price for which so sold, on the price for which

an equivalent quantity of unexposed 35-millimeter black-and-white positive print motion-picture film is sold, in the ordinary course of trade, by manufacturers or producers thereof, as determined by the Secretary.

SECTION 477. TAX ON PENCILS, FOUNTAIN AND BALL-POINT PENS, AND MECHANICAL LIGHTERS FOR CIGARETTES, CIGARS, AND PIPES

This section corresponds to section 486 of the House bill, which amends chapter 29 of the code (relating to manufacturers' excise and import taxes) by adding a new section which provides under subsection (a) thereof for the imposition of a tax of 20 percent on the sale by the manufacturer, producer, or importer of mechanical pencils, fountain pens, and ball-point pens. Subsection (b) of section 486 of the House bill provides for an exemption from the manufacturers' excise tax under this new section if any of the foregoing articles are subject to the 20-percent retailers' excise tax on jewelry under section 2400 of the code.

Your committee has retained this amendment, but has provided for a tax rate of 10 percent instead of 20 percent under the House bill, and has included in the tax base mechanical lighters for cigarettes, cigars, and pipes. These latter articles, under section 431 of the House bill, were included in the list of articles subject to the 20 percent retailers' excise tax under section 2400 of the code (relating to jewelry, etc.).

In order to prevent the pyramiding of taxes, your committee has provided that where a pen, pencil, or lighter is sold and a tax of 10 percent is paid under this section and such pen, pencil, or lighter is thereafter decorated, plated, or ornamented so as to be subject to the 20-percent jewelry tax when sold at retail, the retailer shall, in the computation of his tax liability, be entitled to a credit or refund in an amount equal to the tax paid under this section.

SECTION 478. REPEAL OF TAX ON ELECTRICAL ENERGY

This section is substantially the same as section 487 of the House bill. Subsection (a) repeals section 3411 of the code (relating to the tax on electrical energy for domestic or commercial consumption) and certain related sections in the nature of cross-references, namely, sections 3441 (d) and 3447 (c).

Subsection (b) provides in paragraph (1) that except as provided in paragraph (2), such repeal shall apply to electrical energy sold on or after the first day of the first month which begins more than 10 days after the date of the enactment of this Act, and in paragraph (2) that in the case of a sale of electrical energy which is billed to the customer for a period beginning before such effective date and ending on or after such effective date, the provisions of subsection (a) shall apply only to that portion of the amount billed for the electrical energy sold during the entire period which the number of days in such period beginning with the effective date bears to the total number of days in such entire period. This section shall not apply to electrical energy sold before such effective date for which a bill was rendered prior thereto.

SECTION 479. TAX ON GASOLINE

Subsection (a) of this section amends section 3412 (a) of the code to increase the tax on gasoline from $1\frac{1}{2}$ cents to 2 cents a gallon. Subsection (b) adds a new subsection (f) to section 3412 of the code to impose a floor-stocks tax on gasoline subject to tax under such section which, on the effective date of the increase in tax, is held or intended for sale, at the rate of one-half cent per gallon. It is provided that such floor-stocks tax shall not apply to gasoline in retail stocks held at the place where intended to be sold at retail or to gasoline held for sale by a producer or importer of gasoline. These provisions correspond to section 488 of the House bill.

Your committee, however, has amended the provisions of the House bill to provide under subsection (a) that the increase in rate of tax to 2 cents shall be applicable only until January 1, 1954, at which time the rate of tax with respect to gasoline will revert to $1\frac{1}{2}$ cents per gallon, the present rate of tax. In addition, your committee has, in subsection (b), added a new subsection (g) to section 3412 of the code. This added subsection provides for a credit or refund (without interest) to the producer or importer in an amount equal to so much of the difference between the tax paid on such gasoline and the amount of tax made applicable to such gasoline on and after January 1, 1954, as has been paid by such producer or importer to the person holding such gasoline for sale as reimbursement for the tax reduction on such gasoline. However, no credit or refund shall be allowable with respect to gasoline in retail stocks held at the place where intended to be sold at retail nor with respect to gasoline held for sale by a producer or importer of gasoline. To be entitled to a credit or refund, the producer or importer must file claim with the Secretary prior to April 1, 1954, and establish that he has in his possession satisfactory evidence of the inventories with respect to which he has made reimbursement to persons holding such gasoline on January 1, 1954. He must also establish to the satisfaction of the Secretary that with respect to the quantity of gasoline for which credit or refund is claimed that on and after January 1, 1954, such quantity of gasoline was sold to the ultimate consumer thereof at a price which reflected the amount of the tax reduction. This latter provision is incorporated into subsection (g) of section 3412 in order to prevent any person selling the gasoline for which refund is claimed from being unjustly enriched by having received reimbursement from the producer and also receiving from consumers a price for such gasoline which represented the tax at the rate of 2 cents a gallon.

SECTION 480. EFFECTIVE DATE OF PART VII

This section provides that, except as otherwise provided in part VII, the amendments made by such part shall take effect on the first day of the first month which begins more than 10 days after the date of enactment of this act.

PART VIII. MISCELLANEOUS EXCISE TAX AMENDMENTS

SECTION 481. REDUCTION OF TAX ON TELEGRAPH
DISPATCHES

This section corresponds to section 491 of the House bill. As it passed the House, section 491 (a) reduced the tax imposed by section

3465 (a) (1) (B) of the code on domestic telegraph, cable, or radio dispatches or messages from 25 percent to 20 percent.

Your committee's amendment further reduces the tax on domestic telegraph, cable, or radio dispatches or messages to 15 percent.

Subsection (b) fixes the time when the amendment made by subsection (a) shall take effect in relation to the "rate-reduction date", which is defined in subsection (d) as the first day of the first month which begins more than 10 days after the date of enactment of this act. Pursuant to subsection (b) the amendment applies with respect to amounts paid on or after the rate-reduction date for services rendered on or after such date. Subsection (c) provides that the amendment does not apply with respect to amounts paid pursuant to bills rendered prior to the rate-reduction date. The amendment applies with respect to amounts paid pursuant to bills rendered on or after the rate-reduction date for services for which no previous bill was rendered, except with respect to such services as were rendered more than 2 months before such date. Services rendered more than 2 months before such date are governed by the provisions of sections 1650 and 3465 of the code in effect at the time such services were rendered.

SECTION 482. EXEMPTION OF CERTAIN OVERSEAS TELEPHONE CALLS FROM THE TAX ON TELEPHONE FACILITIES

This section, which does not appear in the House bill, amends section 3466 of the code, relating to exemptions from the tax imposed upon telegraph, telephone, radio messages, and so forth. Subsection (a) provides for the redesignation of subsection (c) of section 3466 as subsection "(d)" and for the insertion of a new subsection "(c)" after subsection (b). The new subsection provides that no tax shall be imposed under section 3465 (a) (1) (A) upon any payment received for any telephone or radio telephone message which originates within a combat zone as defined in section 22 (b) (13) from a member of the Armed Forces of the United States performing services in such combat zone as determined under such section. To obtain the exemption, the person making payment for the telephone or radio telephone message will be required to furnish a certificate to the person receiving such payment containing such facts relating to the telephone or radio telephone message as the Secretary may by regulations prescribe.

Subsection (b) provides that the amendment may by subsection (a) shall apply to amounts paid on or after the first day of the first month which begins more than 10 days after the date of enactment of this act for telephone or radio telephone messages made on or after such date.

SECTION 483. EXEMPTION OF FISHING TRIPS FROM TAX ON TRANSPORTATION

This section is the same as section 492 of the House bill. Subsection (a) of this section amends section 3469 (b) of the Internal Revenue Code to add to the exemption from the tax on the transportation of persons thereby granted, an additional exemption covering amounts paid for transportation by boat for the purpose of fishing from such boat.

Subsection (b) provides that the amendment made by subsection (a) shall apply to amounts paid on or after the first day of the first month which begins more than 10 days after the date of the enactment of this act for transportation on or after such first day.

SECTION 484. TAX ON TRANSPORTATION OF PERSONS

This section, which does not appear in the House bill, amends section 3469 (a) of the code (relating to tax on transportation of persons). Subsection (a) provides that in the case of transportation by water on a vessel which makes one or more intermediate stops at ports within the United States, Canada, or Mexico on a voyage between the United States and a port outside the northern portion of the Western Hemisphere, the payment for the transportation between the intermediate stop and the port in the United States, where the transportation begins or ends, will not be subject to the transportation tax, if the vessel in stopping at any such intermediate port is not authorized both to discharge and to take on passengers. It is also provided that a port or station within Newfoundland shall not be considered as a port or station within Canada in applying the foregoing test.

Example I.—A purchases a steamship ticket in New York City for transportation from New York City to Southampton, England. The vessel on which A sails makes an intermediate stop during the course of such voyage at Boston, Mass., to take on passengers. The vessel is not, however, authorized to discharge passengers at such port. No tax applies to the portion of the transportation between New York City and Boston, since A's voyage involved transportation between a port within the United States and a port outside the northern portion of the Western Hemisphere and the vessel on which A traveled was not authorized both to discharge and to take on passengers at the intermediate port at which it stopped.

Example II.—B purchases a steamship ticket in San Francisco for a voyage from San Francisco to Manila. The vessel on which he travels makes a stop at Honolulu, T. H., to discharge passengers. The vessel is not, however, authorized to take on passengers in Honolulu. No tax shall apply to that portion of the transportation between San Francisco and Honolulu, since B's voyage involved travel from a port within the United States to a port outside the northern portion of the Western Hemisphere and the vessel on which he traveled was not authorized to both discharge and to take on passengers at Honolulu, the intermediate point at which it stopped.

The purchase of a round-trip ticket in either of the above examples would not change the result since (although the transportation covered by the ticket may begin and end within the United States) the return trip constitutes a separate voyage.

Subsection (b) provides that the amendment made by subsection (a) shall apply to amounts paid on or after the first day of the first month which begins more than 10 days after the date of the enactment of this act for transportation on or after such first day.

SECTION 485. TRANSPORTATION OF MATERIAL EXCAVATED IN THE COURSE OF CONSTRUCTION WORK

This section, which does not appear in the House bill, amends section 3475 of the code (relating to tax on transportation of property).

Subsection (a) provides that the tax imposed on the transportation of property shall not apply to the transportation of earth, rock, or other material excavated within the boundaries of, and in the course of, a construction project and transported to any place within, or adjacent to, the boundaries of such project.

To come within the exemption two tests must be met: (1) The property must be earth, rock, or other material excavated within the boundaries of, and in the course of, a construction project, and (2) the transportation of the excavated material must be within the boundaries of the construction project or to a place adjacent thereto.

In determining the area of a construction project, due regard will be given the type of construction operation which is involved and the area which is required to perform and carry out the necessary work. For example, in the case of a road-building operation, the boundaries of the project would embrace the area covered by the length and width of the roadway, plus any adjoining right-of-way. In the case of the construction of an airport, the boundaries would include the outermost limits of the airport.

The amendment made by this section shall apply to amounts paid on or after the first day of the first month which begins more than 10 days after the date of the enactment of this act for transportation on or after such first day.

SECTION 486. ARTICLES FROM FOREIGN-TRADE ZONES

This section is the same as section 494 of the House bill. The section will prevent the receipt in customs territory of the United States of the articles specified in code sections 2000 (c) (2) (cigarettes), 2800 (a) (distilled spirits), 3030 (a) (wines), and 3150 (a) (fermented malt liquors) which were in foreign-trade zones when the increase in the tax on such articles became effective by this act, until there is collected the full amount of all taxes which would have been imposed upon such articles if they had been subjected to tax in customs territory of the United States on such effective date.

Subsection (a) provides that with respect to such articles on which the internal-revenue taxes have been determined, pursuant to section 3 of the act of June 18, 1934, as amended by the act of June 17, 1950 (19 U. S. C. 81c), prior to the effective date of the rates of tax imposed on such articles by the bill, which on or after such date are brought from foreign-trade zones into customs territory of the United States, there shall be levied, assessed, collected, and paid on such articles, in addition to the tax so determined, an additional tax at rates equal to the increases in rates of tax made applicable to such articles by this act.

Under the first proviso of section 3 of the act of June 18, 1934, as amended, the collector of customs now has authority, upon request, to take under supervision any lot or part of a lot of foreign merchandise in a foreign-trade zone and cause it to be appraised and taxes determined and duties liquidated thereon. It may thereafter be sent into customs territory upon the payment of such liquidated duties and determined taxes. Inasmuch as such proviso authorizes a finding of taxes and duties only once and a finding once made would thereafter govern the dutiable and taxable status of the foreign merchandise whenever it was sent into customs territory, it is necessary to provide affirmatively for the levy, assessment, collection, and payment (in

addition to the tax determined prior to the effective date of the rate of tax imposed on the named articles) of the additional tax at rates equal to the increases in rates of tax made applicable to such articles by section 486 (a) of the bill.

It is further provided that with respect to such imported articles, the tax imposed by section 486 (a) shall be collected, paid, and accounted for at the same time and in the same manner as the tax on such articles is collected, paid, and accounted for when brought from the foreign-trade zone into the customs territory.

Under the second proviso of section 3 of the act of June 18, 1934, as amended, certain articles may be taken into a foreign-trade zone from customs territory and may thereafter be brought back to customs territory free of duty and tax. With respect to cigarettes, distilled spirits, wines, and fermented liquors which were taken into such zone pursuant to such second proviso prior to the effective date of the rates of tax imposed on such articles by this bill, subsection (b) of section 486 provides that when, after such effective date, they are returned (without loss of identity) from such foreign-trade zones to customs territory, there shall be levied, assessed, collected, and paid on such articles an additional tax at rates equal to the increases made by the bill in rates of tax applicable to such articles and that the additional tax so imposed shall be collected, paid, and accounted for at the same time and in the same manner as if such articles had been taken into the foreign-trade zone free of tax.

SECTION 487. REFUNDS ON ARTICLES FROM FOREIGN-TRADE ZONES

This section makes provision for refunds with respect to certain cigarettes and alcoholic liquors brought from foreign-trade zones into customs territory of the United States on and after January 1, 1954.

Section 487 (a) covers cigarettes and alcoholic liquors, including distilled spirits, imported perfumes containing distilled spirits, wines, including liqueurs and cordials, and fermented malt liquors. It provides for refund or credit (without interest) of the excess of the tax determined pursuant to section 3 of the act of June 18, 1934, as amended (19 U. S. C. 81c), prior to January 1, 1954, and paid on and after such date upon bringing the article from the foreign-trade zone into customs territory, over the tax that would have been payable in the absence of the increased rates provided by this bill. To be entitled to refund or credit claim must be filed within 30 days after payment of the tax.

Section 487 (b) covers the same articles named in section 487 (a) on which the internal revenue tax (including floor stocks tax) has been paid at the applicable rate and which are taken into a foreign-trade zone from customs territory of the United States and placed under supervision of the collector of customs pursuant to the second proviso of section 3 of the act of June 18, 1934, as amended (19 U. S. C. 81c), prior to January 1, 1954, and which on and after such date are (without loss of identity) returned to customs territory of the United States. This section provides for a refund or credit (without interest) equal to the difference between the tax so paid and the amount applicable to such articles on and after January 1, 1954. To be entitled to refund or credit claim must be filed within 30 days after the return of such article to customs territory.

TITLE V—EXCESS PROFITS TAX

SECTION 501. MAXIMUM TAX FOR NEW CORPORATIONS

This section, for which there is no corresponding provision in the bill as it passed the House, amends section 430 of the code (relating to imposition of excess profits tax) to provide for an alternative maximum rate of excess profits tax, with respect to the first \$400,000 of excess profits net income of a new corporation, for the taxable year in which it commences business and the four succeeding taxable years. This alternative rate, which will generally be lower than the maximum rate applicable to corporations generally, is provided in a new subsection (e) (1) of section 430. Under this new subsection, the excess profits tax of a new corporation during its first five taxable years commencing with its commencement of business will not exceed the sum of the following:

(1) A specified percentage of its first \$400,000 of excess profits net income for the taxable year (5 percent for the taxable year in which it commenced business and for the first succeeding taxable year, 8 percent for the second succeeding taxable year, 11 percent for the third succeeding taxable year, and 14 percent for the fourth succeeding taxable year; and

(2) A specified percentage of excess profits net income in excess of \$400,000 for the taxable year (15 percent of such excess if the taxable year ends before April 1, 1951, 16½ percent of such excess if the taxable year is the calendar year 1951, and 17 percent of such excess if the taxable year is a year (other than the calendar year 1951) which ends after March 31, 1951).

The amount computed under this formula will be the maximum excess profits tax of such corporation if less than the amount computed under section 430 (a) (2) of the code.

Subparagraph (B) of paragraph (2) provides rules for determining when a taxpayer shall be considered, for the purpose of subsection (e), to have commenced business and to have had taxable years during the period from such date. It is contemplated that the Secretary will, by regulations, provide for the determination of such constructive taxable years by reference to the annual accounting period first established by the taxpayer. The following corporations are taken into account for the purpose of determining a constructive date of commencement of business and constructive taxable years from such date:

(i) Any corporation which is a party with the taxpayer to a transaction described in section 445 (g) (whether or not such transaction is described in section 461 (a)), determined as if the date "December 1, 1950" in section 445 (g) read "January 1, 1946."

(ii) Any corporation (in a business substantially similar to that of the taxpayer) if a group of not more than four persons who control the taxpayer at any time during the taxable year also

control such corporation at any time during the taxable year or controlled such corporation at any time during the period beginning 12 months preceding the acquisition by such group of control of the taxpayer. The term "control" for the purpose of this provision is defined as the ownership of either more than 50 percent of the total combined voting power of all classes of stock entitled to vote or more than 50 percent of the total value of shares of all classes of stock.

(iii) Any corporation which is a selling corporation in a part IV transaction in which the taxpayer is a purchasing corporation. Part IV is added to the excess profits tax law by section 520 of this bill.

(iv) Any corporation which, under regulations prescribed by the Secretary, is determined by one or more applications of clauses (i), (ii), and (iii) to stand indirectly in the same relation to the taxpayer as though such corporation were described in any such clause.

Paragraph (3) of subsection (e) provides, in effect, that the benefits of the special limitation provisions under section 430 (e) (1) shall be denied to any taxpayer which derives more than 50 percent of its income for the taxable year from contracts or subcontracts to which title I of the Renegotiation Act of 1951 or to which any prior renegotiation act is applicable. However, determination of whether a corporation meets this 50-percent requirement will be made without regard to whether the receipts and accruals from any such contract or subcontract are subject to renegotiation under the Renegotiation Act of 1951, which exempts from renegotiation receipts and accruals of less than \$250,000 in any taxable year. Thus, a corporation which has income for the taxable year of \$200,000, of which \$150,000 is derived from a war contract to which the Renegotiation Act of 1951 applies, would not be eligible for the benefits of the proposed alternate maximum tax, inasmuch as 75 percent of its income was derived from a contract to which the Renegotiation Act of 1951 applies, even though the \$150,000 received would not be renegotiated.

SECTION 502. PAYMENTS FROM FOREIGN SOURCES FOR TECHNICAL ASSISTANCE, ETC.

This section, for which there is no corresponding provision in the House bill, amends section 433 of the code to provide for the exclusion from normal tax net income, in the computation of excess profits net income, of income of a domestic corporation which constitutes remuneration for certain services rendered by such domestic corporation to its related foreign corporation. The term "related foreign corporation" is defined as a foreign corporation, at least 10 percent of the outstanding stock of which is owned by the domestic corporation rendering the services. To qualify for exclusion under the subparagraph the income must constitute remuneration for technical assistance, engineering services, scientific assistance, or similar services (including the furnishing of information) rendered to the foreign corporation (while it is a related corporation) related to the production or improvement of products of the same type as those manufactured by the domestic corporation, and it must constitute income derived from sources without the United States.

The amendment provides also for the disallowance, in transforming normal tax net income into excess profits net income, of deductions in connection with or properly allocable to the rendering of services of the specified types.

These adjustments to normal tax net income are required, in computing excess profits net income for excess profits tax taxable years, by new subparagraph (R) of section 433 (a) (1) (added by subsection (a) of this section of the bill) and, in computing excess profits net income for base period years, by new paragraph (16) of section 433 (b) (added by subsection (b) of this section of the bill).

SECTION 503. AVERAGE BASE PERIOD NET INCOME IN THE CASE OF CERTAIN FISCAL YEAR TAXPAYERS

Under existing law, a taxpayer with a fiscal year beginning before January 1, 1950, and ending after March 31, 1950, in computing its average base period net income by the general average method provided by section 435 (d) of the code, must use its excess profits net income for the 48 calendar months beginning January 1, 1946, and ending December 31, 1949. This section, added to the bill by your committee, allows such a taxpayer to compute its average base period net income under the general average method by reference to the period of 48 consecutive months ending March 31, 1950, instead of by reference to its base period, if such computation produces a lesser excess profits tax for the taxable year. The determination of the base period for such a taxpayer remains unchanged, the amendment being inapplicable for the purpose of any computations other than the determination of the average base period net income under the general average method. This provision is applicable only in the case of a taxpayer whose first excess profits tax taxable year was a taxable year which began before January 1, 1950, or whose first excess profits tax taxable year was preceded by a taxable year beginning before January 1, 1950, and ending after March 31, 1950.

SECTION 504. AVERAGE BASE PERIOD NET INCOME—ALTERNATIVE BASED ON GROWTH IN CASE OF NEW CORPORATIONS

This section, for which there is no corresponding provision in the House bill, amends section 435 (e) of the code (relating to the alternative based on growth) to permit a new corporation which commenced business before the end of its base period to qualify for the alternative average base period net income based on growth, providing it can meet the other requirements of such section. For the purpose of determining qualification under section 435 (e) the amount of a new corporation's total assets, total payroll, gross receipts, net sales, excess-profits net income, etc., for any period of time during which such corporation was not in existence, will be taken into account under section 435 (e) at zero. For example, a new corporation would, unless it is a member of an affiliated group for its first excess profits tax taxable year, automatically satisfy the total assets requirement of section 435 (e) (1) (A) (i), since its total assets as of the first day of its base period would be zero. A corresponding amendment has been made in part II (relating to the excess-profits credit based on income in connection with certain exchanges).

SECTION 505. AVERAGE BASE PERIOD NET INCOME— ALTERNATIVE BASED ON GROWTH

This section, for which there is no corresponding provision in the House bill, amends section 435 (e) (2) (G) of the code (relating to the growth alternative) to eliminate the word “only” so that a corporation can compute its credit under subparagraph (G) even though it qualifies as a growth corporation under section 435 (e) (1) (A) as well as under section 435 (e) (1) (B).

SECTION 506. ADJUSTMENTS FOR CHANGES IN INADMISSIBLE ASSETS IN CASE OF BANKS

This section, added to the bill by your committee, provides for a limitation in the case of a bank, as defined in section 104 of the code, on the amount of the adjustment to the net capital addition or reduction for the taxable year and to the base-period capital addition which is attributable to inadmissible assets.

Subsection (a) of this section adds a new paragraph (8) to section 435 (g) of the code (relating to net capital addition or reduction). Subparagraph (A) of this new paragraph provides that the amount of the adjustment under section 435 (g) (1) (relating to the computation of the net capital addition) for an increase in inadmissible assets shall not exceed an amount which bears the same ratio to the net capital addition computed without regard to such adjustment as the increase in inadmissible assets for the taxable year, determined under section 435 (g) (5), bears to the increase in total assets for the taxable year. The determination of the amount of the increase in the taxpayer's total assets for the taxable year shall be made in the manner provided in section 435 (g) (5) but shall be made with respect to all assets whether admissible or inadmissible assets as defined in section 440.

The application of this subparagraph will be effective in cases where the increase in total assets exceeds the net capital addition. Thus, if a bank has a net capital addition for the taxable year of \$40,000, before any adjustment with respect to its inadmissible assets, an increase in total assets of \$200,000, and an increase in inadmissible assets of \$50,000, the net capital addition for the taxable year would be \$30,000 (\$40,000 less an adjustment of \$10,000 for the increase in inadmissible assets), instead of being entirely eliminated by reason of the inadmissible asset increase as under present law.

Subparagraph (B) provides a corresponding limitation on the inadmissible asset adjustment where there is a decrease in such assets for the taxable year. In such a case the amount of the adjustment under section 435 (g) (2) (relating to the computation of the net capital reduction) for a decrease in inadmissible assets shall not exceed an amount which bears the same ratio to the net capital reduction, computed without regard to such adjustment for inadmissibles, as the decrease in inadmissible assets for the taxable year determined under section 435 (g) (5), bears to the decrease in total assets for the taxable year. The determination of the amount of the decrease in the taxpayer's total assets for the taxable year shall be made in the same manner as in the case of an increase in total assets, that is, under section 435 (g) (5) and with respect to all assets, whether admissible or inadmissible assets as defined in section 440.

Subsection (b) of this section amends section 438 (relating to new capital credit changes in the case of a taxpayer using the asset method for computing its invested capital) to provide a limitation on the amount of the adjustment for an increase in inadmissible assets which corresponds to that provided in paragraph (8) (A), as added by subsection (a) described above.

Subsection (c) of this section amends section 435 (f) (relating to capital additions in the base period) by expressly providing that the amount of the yearly base-period capital for any taxable year shall not be reduced below zero by the inadmissible asset adjustment. This provision is applicable to any taxpayer (including a bank) and clarifies the existing law.

Subsection (c) also adds a new paragraph (6) to section 435 (f), applicable only in the case of a bank. This new paragraph limits the amount of the reduction in the yearly base-period capital for amounts of inadmissible assets.

Subparagraph (A) of this new paragraph (6) provides that a tentative yearly base-period capital shall be computed under section 435 (f) (1) but without regard to the inadmissible asset adjustment under subparagraph (A) of such section. Subparagraph (B) of this new paragraph (6) provides that such tentative yearly base-period capital shall then be reduced by an amount which bears the same ratio to it as inadmissible assets bear to total assets. The ratio of inadmissible assets to total assets is to be determined under section 440 (b) of the code, using the daily amount of such assets for the first day of the taxable year. The yearly base-period capital is the tentative yearly base-period capital so reduced.

SECTION 507. DECREASE IN INADMISSIBLE ASSETS

Under existing law, a decrease in inadmissible assets during an excess-profits-tax taxable year is not reflected in an upward adjustment in the excess-profits credit for such year. In the case of a taxpayer using the income credit, such a decrease acts instead as an offset to the amount of the net capital reduction for the taxable year. This section, added to the bill by your committee, provides, if certain conditions are met, that a decrease in inadmissible assets, to the extent that it exceeds the net capital reduction for the taxable year, shall be an addition to the excess-profits credit computed under the income method.

This section adds two new paragraphs (9) and (10) to section 435 (g). Paragraph (9) provides that the excess of the amount computed under section 435 (g) (2) (A) or (B) (relating to adjustments to the net capital reduction where there is a decrease in inadmissible assets for the taxable year) over the amount of the net capital reduction for the taxable year (such net capital reduction being computed without regard to decrease in inadmissible assets) shall be considered the net capital addition for the taxable year. Where the computations under section 435 (g) (2) result in no net capital reduction for the taxable year, before adjustment for a decrease in inadmissibles, the amount determined under paragraph (9) shall be an item to be added to the net capital addition for such year computed under section 435 (g) (1).

Paragraph (10) sets forth certain exceptions and limitations applicable to computations under paragraph (9). Subparagraph (A) of

paragraph (10) provides a limitation to the adjustment to the decrease in inadmissible assets under section 435 (g) (2) (B) which section is applicable under present law where such decrease is in excess of the net capital reduction computed before any reduction by reason of such decrease and computed without regard to section 435 (g) (4) (C) and (E) (relating respectively to decrease in borrowed capital and to increase in loans to a member of a controlled group). Under the bill, the limitation in such a case is to an amount not greater than 25 percent of the excess of the net capital reduction (unadjusted for inadmissible asset decrease) computed without regard to the 75-percent limitations provided in section 435 (g) (4) (C) and (E), over the net capital reduction computed under such sentence without regard to section 435 (g) (4) (C) and (E). Thus, under this subparagraph, the amount of the adjustment to the decrease in inadmissible assets under section 435 (g) (2) (B) is limited (for purposes of section 435 (g) (9)) to 25 percent of the sum of the amount of the decrease in borrowed capital and the amount of the increase in loans to members of a controlled group.

Subparagraph (B) of paragraph (10) provides an over-all limitation on the amount determined under paragraph (9) (after applying paragraph (10) (A)) in order to insure that where there is a decrease in inadmissible assets that there shall be a corresponding increase in the taxpayer's operating assets before any increase in credit is allowed. Accordingly, subparagraph (B) provides that the amount so determined under paragraph (9) shall not be greater than the excess of the increase in operating assets for the taxable year over the net capital addition (determined without regard to paragraph (9) and determined without regard to the 75-percent limitation provided in paragraphs (3) (C) and (4) (C) and (E) of section 435 (9)).

The increase in operating assets for the taxable year shall be determined in the same manner as the increase in inadmissible assets for such year is determined under section 435 (g) and as though that section referred instead to operating assets. The term "operating assets" means property used in the taxpayer's trade or business within the meaning of section 117 (j) (1), stock in trade or other property of a kind which would properly be includible in the inventory of the taxpayer if owned at the close of the taxable year, and property held by the taxpayer primarily for sale to customers in the ordinary course of the taxpayer's trade or business. Excluded from such term are inadmissible assets, stock, securities, and intangible property (such as evidence of indebtedness). For the purpose of such exclusion intangible property is not limited to the definition of intangible property in section 441 (i).

Subparagraph (C) of paragraph (10) provides that the adjustment to the net capital addition for a decrease in inadmissible assets provided in paragraph (9) shall not apply in any case in which the Secretary determines that the increase in operating assets is the direct or indirect result of an increase in indebtedness of the taxpayer, other than indebtedness which constitutes borrowed capital as defined in section 439 (b). For example, this limitation may be applied to prevent a taxpayer from obtaining a net capital addition under paragraph (9) where its addition to operating assets is accompanied by increased open account indebtedness to members of a controlled group including the taxpayer.

SECTION 508. ELECTION WITH RESPECT TO CERTAIN INADMISSIBLE ASSETS

Subsection (a) of this section, for which there is no corresponding provision in the House bill, adds a new subsection (c) to section 440 of the code to permit a dealer in Government securities to elect for any taxable year, in accordance with regulations prescribed by the Secretary, to increase its excess-profits net income by an amount equal to the amount by which the interest received or accrued during the taxable year on Government obligations exceeds the sum of (A) the interest paid or accrued during such year which is not allowed as a deduction under section 23 (b) of the code, and (B) the amount of the adjustments required for the taxable year under section 22 (o) of the code (relating to adjustment for certain bond premiums). The amount of the section 22 (o) adjustment shall not be in excess of the amount of interest received or accrued during the taxable year on obligations to which such section is applicable. The Government obligations for which an election is available are obligations described in section 22 (b) (4), the interest on which is wholly exempt from taxation under chapter 1 of the code. The election is available only with respect to obligations which are not capital assets in the hands of the taxpayer.

The effect of making the election provided in this paragraph is to allow such obligations to be treated as admissible assets for the purposes of all computations in determining the excess profits tax liability for the taxable year for which the election is made. Thus, with respect to the taxable year for which an election is made, such obligations shall also not be considered inadmissible assets in determining either original inadmissible assets under section 435 (g) (5) or yearly base period capital under section 435 (f).

For the purpose of determining the excess profits credit based on income for any taxable year for which an election has been made, the excess profits net income computed for base period years under section 433 (b) shall also include the amount by which the interest received or accrued during each such taxable year on Government obligations exceeds the amount of interest paid or accrued during such year which is not allowed as a deduction under section 23 (b) and, if the taxable year ends after June 30, 1950, the amount with respect to such year required as an adjustment under section 22 (o).

SECTION 509. ALTERNATIVE AVERAGE BASE PERIOD NET INCOME

Subsection (a) of this section adds a new subsection (h) to section 442. The taxpayer is entitled to compute an alternative average base period net income under this new subsection if it commenced business on or before the first day of its base period and if the aggregate of the excess profits net income for each of the 12 months for which a substitute excess profits net income is to be computed is less than 35 percent of one-half of the aggregate of the excess profits net income for each of the 24 months remaining after selecting the 12 months to be so adjusted. For the purpose of this eligibility test, deficits in excess profits net income shall be taken in account.

The first step in the computation of the alternative average base period net income is the computation of the excess profits net income-

(or deficit therein) for the 36 months from which the 12-month period is to be selected. This computation is to be made in the manner provided in section 442 (b) by selecting ordinarily the 36 months which produce the highest aggregate excess profits net income or the lowest aggregate deficit in excess profits net income. The second step is the selection, from the 36 months determined under the first step, of 12 months the elimination of which will result ordinarily in the highest remaining aggregate excess profits net income or the lowest remaining aggregate deficit in excess profits net income. This selection is made by determining either the 12 consecutive months the elimination of which produces the highest remaining aggregate excess profits net income or the lowest remaining aggregate deficit in excess profits net income, or the 12 months which remain after retaining the 24 consecutive months which produce the highest aggregate excess profits net income or lowest aggregate deficit. The third step is the computation, for each month in the 12-month period so selected, of a substitute excess profits net income under section 442 (e), which is in general based on the product of the taxpayer's total assets for the last day in the year in which such month falls and the appropriate industry base period yearly rate of return.

The fourth step is the determination of the aggregate of such substitute excess profits net income for each month in the selected 12-month period. This is based upon the amount computed under the third step, limited, however, to an amount equal to one-half of the aggregate excess profits net income for each month in the 24-month period remaining after the computation required under the second step above. For the purpose of this limitation deficits in excess profits net income for such 24-month period are taken into account. To the amount of such aggregate so determined the aggregate of the excess profits net income for the 24-month period is added, such excess profits net income for this purpose being computed in the manner provided in the second sentence of section 435 (d) (1) which allocates to each month a portion of the excess profits net income for the taxable year in which such month falls and provides that the excess profits net income for any month shall not be less than zero. The final step in the determination of the alternative average base period net income under this subsection is to divide by 3 the amount ascertained under the fourth step.

If the taxpayer is entitled to the benefits of this provision and is also entitled to compute its average base period net income under subsection (c) of section 442 because of abnormalities during its base period, the taxpayer shall compute its average base period net income under whichever of the applicable subsections produces the lower excess profits tax. The same rule applies where the taxpayer is entitled to the benefits of either the new provision or section 442 (d). In order to be entitled to the alternative average base period net income computation under subsection (h), the taxpayer need not demonstrate the presence of abnormalities in its base period.

Your committee has made technical amendments to section 442 in order to conform that section to the addition of this new subsection and has amended section 435 (f) (3) to provide that the base period capital addition of a taxpayer computing an alternative average base period net income under this new subsection (h) shall be com-

puted in the same manner as the base period capital addition in the case of a taxpayer to which section 442 (c) (relating to abnormalities during the base period which affect 12 or fewer months) is applicable.

SECTION 510. DEFINITION OF TOTAL ASSETS FOR PURPOSES OF SECTIONS 442-446

Section 510, for which there is no corresponding provision in the House bill, amends section 442 (f) of the code (relating to the definition of total assets) to require that in determining total assets a reduction shall be made equal to the amount of any indebtedness (other than borrowed capital as defined in sec. 439 (b) (1)) to a member of a controlled group, as defined in section 435 (g) (6), which includes the taxpayer. Section 442 (f) of the code now provides that total assets for any day shall be determined as of the end of such day and shall be an amount equal to the sum of the cash and the property (other than cash, inadmissible assets, and loans to members of a controlled group as defined in sec. 435 (f)) held by the taxpayer in good faith for the purposes of the business. Thus, at present, section 442 (f) includes borrowed funds in determining total assets, even though such indebtedness may be to a member of a controlled group which includes the taxpayer and such loans may be of a type that are not taken into account, as loans to members of a controlled group in determining the capital position or capital changes of the lender for the purposes of the excess-profits tax. The amendment in effect provides that open account indebtedness, and other indebtedness not meeting the definition of borrowed capital, shall reduce total assets if such indebtedness is owed to a member of the same controlled group.

This section is effective with respect to taxable years ending after the date of enactment of this bill.

SECTION 511. AVERAGE BASE PERIOD NET INCOME— CHANGE IN PRODUCTS OR SERVICES

Section 511, for which there is no corresponding provision in the House bill, amends section 443 (f) of the code (relating to changes in products or services) to provide that if after the end of the base period of the taxpayer there was a substantial change in the products furnished by such taxpayer, such change shall be considered to have occurred on the last day of the base period if the taxpayer prior to July 1, 1950, was constructing the facilities used to manufacture such new product and if such construction and the production of such new product are in furtherance of a course of action to which it (or a corporation with which it has the privilege of filing a consolidated return under sec. 141) was committed before the end of its base period by a contract which granted to it a license, franchise, or similar right to produce such new product. At present, section 443 (a) (1) requires that the change in products occur during the last 36 months of the base period. The amendment in effect modifies this requirement of section 443 (a) (1). However, the other requirements of section 443 (a) (1) and the tests of section 443 (a) (2) and (3) must still be satisfied before a taxpayer, which is considered to have made a change of

product by reason of the amendment of section 443 (f) made by this section of the bill, may qualify to compute its average base period net income under section 443.

SECTION 512. AVERAGE BASE PERIOD NET INCOME— NEW CORPORATION

Section 512 for which there is no corresponding provision in the House bill, amends section 445 (c) of the code (relating to total assets for the first 3 years of new corporations). At present, a new corporation computing its average base period net income under section 445 for the purpose of determining the tax for any of its first three taxable years which is an excess profits tax taxable year, is entitled to apply its industry rate of return only to the sum of its total assets (as defined in sec. 442 (f)) for the last day of its taxable year immediately preceding its first taxable year ending after June 30, 1950, such total assets first being increased by the net capital addition determined under section 435 (g) for the excess profits tax taxable year, or decreased by the net capital reduction for such taxable year. Although under such formula additions to equity capital are fully reflected, only 75 percent of the increase or decrease in borrowed capital is taken into account in determining total assets. The amendment includes the full amount of borrowed capital in the amount to which the industry rate of return is applied.

SECTION 513. EXCESS PROFITS CREDIT—REGULATED PUBLIC UTILITIES

Section 513, for which there is no corresponding provision in the House bill, amends section 448 (c) (3) of the code (relating to alternative excess profits credit for regulated public utilities) to include therein a corporation engaged as a common carrier in the furnishing or sale of transportation of oil or other petroleum products (including shale oil) by pipeline if such corporation is subject to the jurisdiction of a public service or public utility commission or other similar body of the District of Columbia or of any State. At present, oil pipelines are not included in section 448 (c) (3), unless they are subject to the jurisdiction of the Interstate Commerce Commission. Section 448 (d) defines a "regulated public utility" for the purposes of the alternative excess profits credit as a corporation described in section 448 (c) which derives a certain percentage of its gross income from sources described in section 448 (c). The amendment thus allows intrastate as well as interstate oil pipelines to qualify as regulated public utilities if they meet the requirements of the section.

SECTION 514. CONSOLIDATED RETURNS OF REGULATED PUBLIC UTILITIES

Section 514, for which there is no corresponding provision in the House bill, amends section 448 (e) of the code (relating to consolidated returns of regulated public utilities) to provide that for the purposes of filing a consolidated return with its railroad lessee corporation, a railroad lessor corporation described in section 434 (d) of the code shall be

considered a corporation described in section 448 (c) (3). In effect, this amendment permits a railroad corporation which has leased substantially all of its railroad properties to another railroad corporation to file a consolidated return, using the alternative credit provided by section 448, with its affiliated lessee railroad corporation, if both such corporations otherwise qualify to use section 448.

SECTION 515. NONTAXABLE INCOME FROM CERTAIN MINING PROPERTIES

This section, for which there is no corresponding provision in the House bill, allows to producers of potash, sulfur, and metallurgical grade and chemical grade limestone the alternative method for computing nontaxable income from exempt excess output provided in section 453 (b) (2) of the code where the properties were in operation during the normal period. Where these mineral properties were not in operation during the normal period, the net income from such properties is accorded the benefits of section 453 (b) (4) now available in the case of metal and coal mines, timber blocks, and natural-gas properties.

Your committee has also made technical amendments to these sections and to section 453 (a) (13) in order that they may conform to the amendment made by this section of the bill.

SECTION 516. TRANSITION FROM WAR PRODUCTION AND INCREASE IN PEACETIME CAPACITY

Section 516, for which there is no corresponding provision in the House bill, adds subsection (a) of a new section 459 to part I of subchapter D of chapter 1 of the code. Subsection (a) of section 516 provides for the computation of an average base period net income based upon the excess profits net income for the last 6 months of 1948 and a percentage of the first 6 months of 1950 as provided in section 435 (e) (2) (G). It is provided that the credit shall be applicable to any taxpayer which has commenced business before January 1, 1940, and since such date has been primarily engaged in manufacturing.

A taxpayer may qualify for the computation under this subsection only if it meets the requirements of paragraphs (1) to (4) of the subsection. Paragraph (1) provides that the adjusted basis of its total facilities (as defined in sec. 440 (d)) on the first day of its base period when added to the total facilities for such day of corporations with which it was affiliated must not exceed \$10,000,000. Paragraph (2) provides that the unadjusted basis for determining gain of the taxpayer's total facilities on the last day of its base period must be at least 250 percent of the unadjusted basis for determining gain of its total facilities on the first day of its base period. Paragraph (3) provides that during the period 1942 through 1945, 70 percent of the taxpayer's gross income must have been from contracts with the United States either as a prime contractor or as a subcontractor. It is further provided that in all taxable years ending after 1945 and before 1950 less than 20 percent of its income must be from such sources and that less than 20 percent of the income must be from such sources for all taxable years ending after December 31, 1949, and beginning before July 1, 1950.

Paragraph (4) provides that the monthly average of the excess profits net income of the taxpayer for all taxable years ending with or within the last 24 months of its base period (that is, the aggregate of the excess profits net income for each month in such taxable years divided by the number of such months) and for the last taxable year ending before its base period (similarly determined) shall each be at least 300 percent of the monthly average excess profits net income for all taxable years ending with or within the first 24 months of its base period (that is, the aggregate of the excess profits net income for each month in such taxable years divided by the number of such months).

Subsection (b) of section 516 provides for amendments to section 435 (c) to include this and other subsections of section 459 among the various methods of computing average base-period net income which are available to the taxpayer if they result in a lesser excess-profits tax. One additional effect of this amendment is to make clear that no base-period capital addition is allowable if the average base-period net income determined under this subsection is used.

SECTION 517. BASE PERIOD CATASTROPHE

This section, for which there is no corresponding provision in the House bill, adds a new section 459 (b) to the code to grant to a taxpayer which has suffered a catastrophe during the last 36 months of its base period the alternative, in computing its average base period net income under the general average method, of substituting for the excess-profits net income for each month of the taxable year in which the catastrophe occurred the average of the excess-profits net income for each month in the base period preceding the taxable year in which the catastrophe occurred. The benefits of this subsection are available to a taxpayer which was engaged throughout its base period primarily in manufacturing if it meets the eligibility tests described in paragraphs (1) to (3), inclusive.

Paragraph (1) requires that the taxpayer must have suffered during the last 36 months of its base period a catastrophe by fire, storm, explosion, or other casualty, destroying or rendering inoperative a production facility constituting a complete plant or plants having in the hands of the taxpayer immediately prior to the catastrophe an adjusted basis for determining gain equal to 15 percent or more of the adjusted basis for determining gain of all the taxpayer's production facilities at such time. The term "production facility" means a factory (including equipment and machinery which are part of the factory) and similar manufacturing plants.

Paragraph (2) requires that the taxpayer's normal production or operation be substantially interrupted for a period of more than 12 consecutive months as a result of such catastrophe.

Paragraph (3) requires that the taxpayer must have replaced the destroyed or inoperative production facility prior to the end of its base period with a production facility which at the end of its base period had in its hands an adjusted basis for determining gain in an amount not less than such adjusted basis, immediately prior to the catastrophe, of the destroyed or inoperative production facility.

For the purpose of section 435 (a) (1) (B), the average base period net income determined under this subsection is considered an average base period net income determined under section 435 (d). Accord-

ingly, the computation of the average base period net income under this subsection does not reduce the amount of the base period capital addition to which the taxpayer would otherwise be entitled.

SECTION 518. CONSOLIDATION OF NEWSPAPERS

This section, added to the bill by your committee, adds a new section 459 (c) to the code, applicable in the case of a taxpayer engaged primarily in the newspaper-publishing business which, after the first half of its base period and before July 1, 1950, consolidated its mechanical, circulation, advertising, and accounting operations with such operations of another newspaper-publishing corporation in the same area. In the case of a taxpayer entitled to the benefits of this subsection, its average base period net income shall be the amount computed under section 435 (e) (2) (relating to the computation of the average base period net income based on growth), but computed without regard to subparagraph (G) of such section. In order to be eligible for the benefits of this subsection the taxpayer must qualify under the conditions set forth below.

Paragraph (2) of the new subsection requires that the taxpayer establish to the satisfaction of the Secretary that, during the period beginning with the consolidation and ending with the close of the first taxable year beginning after the consolidation, there were substantial reductions in the amount of expenses which would otherwise have been paid or incurred in conducting the operations described under paragraph (1), and that such reductions were attributable to the consolidation.

Paragraph (3) of the new subsection requires that for the first taxable year beginning after such consolidation the total deductions of the taxpayer under section 23 of the code, computed without regard to section 23 (s) (relating to the net operating loss deduction) and without regard to section 23 (bb) (relating to circulation expenditures), must not be in excess of 80 percent of the average of such deduction for the two taxable years of the taxpayer next preceding the taxable year in which such consolidation began.

Paragraph (4) of the new subsection requires that the excess profits net income of the taxpayer, computed as provided in section 433 (b) (relating to the excess profits net income for taxable years in the base period), for the first taxable year of the taxpayer beginning after such consolidation must be 125 percent or more of the amount determined under section 435 (d) (4) (relating to average base period net income determined under the general average method). For the purpose of the test set forth in this paragraph, the excess profits net income shall be computed in the manner provided in section 433 (b) whether or not the first taxable year of the taxpayer beginning after the consolidation is an excess profits tax taxable year.

The benefits of this subsection shall not be available to any taxable year of the taxpayer unless the consolidation was continued throughout such taxable year.

SECTION 519. TELEVISION BROADCASTING COMPANIES

Section 519 of the bill, for which there is no corresponding provision in the House bill, adds subsection (d) to section 459 of the code, section 459 (a), (b), and (c) being added to the code by sections 516

to 518 of the bill. Subsection (d) of section 459 provides for the computation of an average base period net income in the case of corporations engaged in the television broadcasting business, including both station and network operations. Subsection (d) (1) provides that the average base period net income determined under this subsection shall be available only to corporations which were engaged in the business of television broadcasting prior to January 1, 1951, and have remained in such business continuously throughout the period ending with the close of the taxable year for which the tax is being computed.

Subsection (d) (1) (A) provides for the computation of an average base period net income in the case of a corporation which is engaged only in the business of television broadcasting, and in no other business, at the end of its base period. In the case of such a corporation, the average base period net income is determined by multiplying its total assets (as defined in sec. 442 (f)) on the last day of its base period by the base period rate of return for the industry classification which includes radio broadcasting.

Subsection (d) (1) (B) provides for the computation of an average base period net income in the case of a corporation which is engaged only in the business of television and radio broadcasting, and in no other business, at the end of its base period. Two alternative methods of computation are provided. One is the same as that provided in paragraph (1) (A) and the other is computed by multiplying its total assets (as defined in sec. 442 (f)) on the last day of its base period by its individual rate of return. The computation of the individual rate of return is described in paragraph (2) of subsection (d).

Subsection (d) (1) (C) provides for the computation of an average base period net income in the case of a corporation which at the end of its base period was engaged in the television broadcasting business and in another business or businesses other than radio broadcasting. For example, section 459 (c) (1) (C) may be applicable to a corporation engaged at the end of its base period in the television broadcasting business, the radio broadcasting business, and another business, and to a corporation engaged at the end of its base period in the television business and in a business other than the radio broadcasting business. The average base period net income in the case of such a corporation shall be determined under this subsection by first computing an average base period net income under the general average method (sec. 435 (d)) for the business other than radio or television, such computation being made without regard to income, deductions, losses, or other items from the radio and television broadcasting business. To this is added an amount computed by applying to the total assets, on the last day of its base period used in the radio broadcasting business (if the taxpayer was engaged in such business) and in the television broadcasting business, either the industry rate of return for radio broadcasting or the individual rate of return as determined under subsection (d) (2).

Subsection (d) (1) (D) provides for the computation of an average base period net income in a case in which the television broadcasting business is acquired by the taxpayer after the close of its base period and before the end of the calendar year 1950. In such case the average base period net income shall first be computed without regard to this section, and then there shall be added thereto an amount computed by

applying either the industry rate of return for radio broadcasting or the taxpayer's individual rate of return (determined under subsec. (d) (2) on the basis of the radio broadcasting business, if any, in which the taxpayer was engaged during its base period) to the amount of total assets which would be included with respect to the television business if such business had been acquired on the last day of its base period.

Subsection (d) (1) authorizes the Secretary to provide by regulations the rules applicable in the case of a taxpayer determining its average base period net income under this subsection. Examples of the rules to be prescribed by regulations are rules for the method of determining the income, deductions, losses, and other items relating separately to television broadcasting, to radio broadcasting, and to businesses other than television and radio broadcasting; for the method of determining the average base period net income for any business of the taxpayer other than television and radio broadcasting; for the method of determining the assets attributable to the television broadcasting business and to the radio broadcasting business, and for the method of determining the excess profits net income of the radio broadcasting business, which determinations are appropriate to the determinations to be made either under this subsection or under subsection (d) (2). Further rules would relate to the elimination of duplication where assets used during the base period in another business of the taxpayer are directly or indirectly transferred into assets to which the industry or individual rate of return is applied, and for the elimination of duplication where assets held at any time during its base period are used in acquiring the television business in a case described in subsection (d) (1) (D).

Subsection (d) (2) provides for the computation of the individual rate of return, the use of which is prescribed in subsection (d) (1). Such rate of return shall be determined by first averaging the total assets attributable to the radio broadcasting business at the close of each month in the base period. The aggregate of the excess profits net income of the radio broadcasting business, determined without regard to income, deductions, losses, or other items attributable to any other business, including the television broadcasting business, for each month during the base period is then to be computed and divided by 4. The average of the excess profits net income is then divided by the average of the assets to obtain the individual rate of return.

Subsection (d) (3) provides an adjustment, applicable if the industry rate of return is used, for interest paid by the taxpayer. This adjustment corresponds to that required under existing provisions of the excess-profits tax. It is provided, however, that the reduction of the amount computed by reference to the industry rate of return shall in cases under subsection (d) (1) (C) and (D) be only by such portion of the interest paid as the total assets to which the industry rate of return is applied is of the total assets of the taxpayer. Thus, the interest paid is attributed ratably among all the assets held by the taxpayer.

Subsection (d) (4) provides that the Secretary shall by regulations provide for the application of part II of subchapter D (relating to certain tax-free transactions) in the case in which a corporation otherwise entitled to the benefits of this section is an acquiring corporation in a part II transaction.

SECTION 520. EXCESS-PROFITS CREDIT BASED ON INCOME IN CONNECTION WITH CERTAIN TAXABLE ACQUISITIONS

Section 520 for which there is no corresponding provision in the House bill adds a new part IV to subchapter D of chapter 1 and provides for certain technical amendments of parts I and II of subchapter D relating to such new part.

Subsection (a) of section 520 adds part IV which consists of one section, section 474. Subsection (a) thereof comprises definitions. Subsection (a) (1) defines the term "purchasing corporation." Subsection (a) (1) (A) defines as a purchasing corporation any corporation which, before December 1, 1950, acquired substantially all of the assets of another corporation or of a partnership in a transaction other than a transaction described in section 461 (a).

Subsection (a) (1) (B) provides that a corporation shall be a purchasing corporation if it acquires only part of the assets of another corporation (in a transaction other than a part II transaction) provided (1) the properties acquired in such transaction are all of the properties of a separate business of the other corporation and (2) that in the furtherance of a plan of complete liquidation by such other corporation substantially all of its other properties were transferred to one or more other corporations. For the purpose of subsection (a) (1) (B) (as distinguished from subsection (a) (1) (A)), the acquisition must be from a corporation. Thus, the acquisition of part of the assets of a partnership will not qualify the purchaser as a purchasing corporation under subsection (a) (1) (B).

It is further provided (subsec. (a) (1) (C)) that a taxpayer can be a purchasing corporation if it receives solely as paid in surplus or a contribution to capital in respect of voting stock owned by another corporation substantially all of the properties which such other corporation acquired immediately prior thereto in a part IV transaction with respect to which such other corporation was a purchasing corporation as defined in subsections (a) (1) (A) or (a) (1) (B).

For the purpose of the above subsections the properties acquired need not include cash.

Subsection (a) (2) defines as the selling corporation the corporation or partnership whose assets were acquired by the purchasing corporation.

Subsection (a) (3) defines as a part IV transaction any transaction described in subsection (a) (1).

Subsection (b) of section 474 provides that the average base period net income of a purchasing corporation under the general average method provided in section 435 (d) shall be determined by computing the excess-profits net income of the purchasing corporation without regard to the fact that it is such a purchasing corporation (that is, without reference to pt. IV) or by applying the provisions of part IV in computing its excess-profits net income, whichever produces the lesser excess-profits tax for the taxable year. If the taxpayer applies part IV, the excess-profits net income for each month of the base period of the purchasing corporation shall be computed by adding to the actual excess-profits net income (or deficit therein) of the purchasing corporation for such month the excess-profits net income (or

deficit therein) for each such month of the business acquired by the purchasing corporation.

Subsection (c) of section 474 provides for the following limitations: First, that immediately after the part IV transaction (that is, the purchase of assets by the purchasing corporation) the selling corporation discontinued all business activities and was completely liquidated in a transaction other than a transaction described in section 461 (a). Thus, if the liquidation of the selling corporation is pursuant to section 112 (b) (6), the provisions of part IV may not be applied by the purchasing corporation. The requirement of discontinuance of business activities and liquidation in a case in which only part of the assets of a corporation were acquired may be postponed until after the last part IV transaction by the selling corporation in furtherance of its single plan of complete liquidation.

The second limitation requires that the properties acquired in the part IV transaction were all or substantially all of the properties (other than cash) used by the selling corporation (or by a component corporation thereof) in the operation of the business whose assets were acquired. Thus, if any substantial portion of the assets used in the business by the selling corporation had been sold or distributed to others prior to the transaction, part IV may not be applied to the purchasing corporation. It is further provided that in any case in which the business was operated under a franchise or license, such franchise or license shall be deemed to have been acquired by the purchasing corporation from the selling corporation if it acquires a substantially identical franchise or license from the same person who granted the one used by the selling corporation. Thus, in a case in which an automobile manufacturer had previously granted a franchise or license to the selling corporation, which franchise or license was not transferrable, the purchasing corporation will be deemed to have acquired such franchise or license from the selling corporation if the same manufacturer grants to the purchasing corporation a substantially identical franchise or license.

The third limitation requires that the business acquired from the selling corporation be operated by the purchasing corporation from the date of the transaction to the end of the taxable year. It is contemplated that where the purchasing corporation becomes a component corporation in a part II transaction the business must have been operated by the purchasing corporation (if it held it for any period of time) and, after the part II transaction, by the acquiring corporation until the end of the taxable year.

Subsection (d) of section 474 provides that in determining whether property is acquired solely as paid-in surplus or a contribution to capital the assumption by the purchasing corporation of a liability of the transferring corporation or the fact that the property acquired is subject to a liability shall be disregarded.

Subsection (e) of section 474 provides that the Secretary shall by regulations prescribe the rules for the application of part IV to all of the parties to a part IV transaction. It is specified in the subsection that those rules are to be consistent with the principles of part II as applied to transactions described under that part. In particular, the subsection provides that the regulations shall prescribe rules for the application under part IV of the principles described in section 462

(j) (1) and in other provisions of part II relating to the prevention of duplication. It is anticipated that rules will be issued, based upon the principles set forth in section 462 (b), for use in combining the excess profits net income of the purchasing corporation with the excess profits net income attributable to the business acquired; that rules will be issued, based upon the principles of sections 463 and 464, relating to capital changes, for use, in conjunction with an application of the principles of section 462 (j) (1), in determining the capital changes of the purchasing corporation after the transaction; and that rules will be issued, based upon the principles of section 462 (i), relating to allocations in the case of certain part II transactions, including, in proper cases, the principles set forth in section 462 (i) (6) relating to identifiable earnings experiences, for use in determining that part of the excess profits net income received by the selling corporation during its base period and prior to the transaction (and that part of the capital changes during the base period and thereafter while the properties were held by the selling corporation) which is attributable to the properties which were purchased by the purchasing corporation and which is properly allocable to that corporation.

Subsection (b) of section 520 of the bill makes two technical amendments to subchapter D of chapter 1 of the code. A cross reference to part IV is inserted at the end of section 435 (a) (3) (relating to the amount of excess profits credit). Section 462 (b) in part II of the subchapter is amended by adding a new paragraph (4) to the effect that the Secretary shall provide by regulations for the application of that subsection in any case in which a purchasing corporation, as defined in part IV, is a component corporation in a transaction described in that part II. No amendment is made to those subdivisions of section 462 which deal with the various alternative average base period net incomes since the benefits of part IV relate only to the computation by a purchasing corporation of its average base period net income under the general average method provided in section 435 (d) and, thus, to the use by the acquiring corporation of that experience for a similar limited purpose. It was not deemed necessary to make a conforming amendment either to section 461 (e) or to section 463 (b), relating to successive part II transactions, or to section 462 (i), relating to allocations in the case of certain part II transactions, since the amendment of section 462 (b) necessarily requires that the principles of those latter sections be made applicable. The amendment of section 462 (b) is made for purposes of transactions involving acquiring corporations as defined under section 461 (a) of part II.

TITLE VI—MISCELLANEOUS PROVISIONS AND AMENDMENTS

SECTION 601. EXEMPTION OF CERTAIN ORGANIZATIONS FROM INCOME TAX FOR PRIOR TAXABLE YEARS

Section 601 of the bill, which section is identical with section 501 of the House bill, adds a subsection at the end of section 302 of the Revenue Act of 1950 to provide that for any taxable year beginning prior to January 1, 1951, an organization (which term includes a

trust) operated for the primary purpose of carrying on a trade or business for profit, no part of the net earnings of which inures to the benefit of any private shareholder or individual and all of the net earnings of which inure to the benefit of an educational organization which normally maintains a regular faculty and curriculum and normally has a regularly organized body of pupils or students in attendance at the place where its educational activities are regularly carried on, shall not be denied exemption from taxation under any paragraph of section 101 of the code on the ground that it is carrying on a trade or business for profit.

An example of the application of the amendment would be the case of a feeder corporation whose business is the manufacture of automobiles for the ultimate profit of a university.

SECTION 602. FOREIGN ESTATE TAX CREDIT

This section, for which there is no corresponding provision in the House bill, amends sections 813 and 936 of the code to provide that, where property included for Federal estate tax purposes in the gross estate of a resident or citizen of the United States is situated in a foreign country and subjected to a death tax by such country, a credit shall be allowed against the estate tax for such foreign death tax. The amendment applies only with respect to estates of residents and citizens dying after the date of enactment of the bill.

The credits for foreign death taxes are to be deducted after deducting the existing credits under section 813 (b) of the code for State inheritance taxes and under sections 813 (a) and 936 (b) for Federal gift tax.

The credits provided under this section are allowable (under principles developed under the foreign income tax credit authorized by sec. 131 of the code), not only for death taxes of foreign states in the international sense, but also for such taxes of possessions or political subdivisions of foreign states. Credit in the estate of a particular decedent is allowable, however, only for estate, inheritance, legacy, or succession taxes imposed with respect to the death of such decedent. Where credit for a particular foreign death tax is authorized by treaty, there is to be allowed either the credit computed under the treaty or that computed under this section, whichever is greater. For example, if a portion of the estate of a citizen of the United States is situated in the Province of Quebec and is subjected to Dominion and Provincial succession duties, the credit for the Dominion duty computed under the estate tax treaty with Canada, or the credit for the Dominion and provincial duties computed under this section, whichever is greater, is to be allowed.

In the case of a decedent who was a resident but not a citizen of the United States, the credit is to be allowed only if the country of which the decedent was a national, in imposing death taxes, allows a similar credit in the case of a citizen of the United States resident in such country. This "similar credit requirement" is analogous to that contained in section 131 (a) (3) of the code, relating to the foreign income tax credit.

The credit is not allowable for any portion of the foreign tax which is paid with respect to property situated outside the territory of the foreign country imposing such tax. The determination of the coun-

try in which property is situated for the purposes of determining whether the credit is allowable is to be made in accordance with the principles applicable in determining whether property is situated within or without the United States for purposes of the imposition of the Federal estate tax on the estate of a nonresident not a citizen of the United States.

Credit is to be allowed only with respect to property which meets three conditions: (1) Subjection to the death tax of a foreign country, (2) situs within such foreign country, and (3) inclusion in the gross estate for the purpose of the Federal estate tax. Where property which fails to meet condition (2) or condition (3) is also subjected to the foreign tax, a ratio is to be used in determining the amount of the foreign tax attributable to the property with respect to which credit is allowable. The method of computing this ratio, which is the first limitation on the amount of the foreign tax credit, is stated in paragraphs (2) (A) and (3) (A) of section 813 (c) and paragraphs (2) (A) and (3) (A) of section 936 (c).

A second limitation on the amount of the credit is stated in paragraphs (2) (B) and (3) (B) of section 813 (c) and paragraphs (2) (B) and (3) (B) of section 936 (c). Under this limitation the credit is not to exceed the portion of the Federal estate tax attributable to the property which meets the three conditions stated in the preceding paragraph.

The two limitations on the credit are to be separately computed for the tax of each foreign country. Where the foreign country imposes more than one kind of death tax or imposes taxes at different rates upon the several shares of an estate, or where the foreign country and a political subdivision thereof each imposes a death tax, the first limitation but not the second limitation is to be separately computed for each such tax.

The credit is to be allowed only upon submission of all necessary evidence by the executor. Sections 813 (c) (5) and 936 (c) (5) provide limitations on the allowance of the credit or of refund based on the credit, which are identical with those now contained in section 813 (b), relating to credit for State inheritance taxes. Refunds based on the credit are to be made without interest.

Subsection (c) of this section of the bill makes a technical amendment to section 927 to provide an extended period, in cases in which payment of the estate tax attributable to a reversionary or remainder interest is postponed, for the claiming of credit for foreign death taxes allowable against such part of the estate tax.

Subsection (d) of this section of the bill amends section 874 (b) (relating to exceptions to the general periods of limitation on assessment and collection of estate tax) by adding a new paragraph (3). The new paragraph requires the executor to notify the Commissioner of any recovery of State or foreign death taxes for which credit has been claimed, and authorizes a redetermination of the Federal tax on the basis of such recovery.

SECTION 603. ESTATE AND GIFT TAX TREATMENT OF UNITED STATES BONDS HELD BY CERTAIN NON-RESIDENT ALIENS

This section is identical with section 503 of the bill as passed by the House. This section amends section 861, relating to the computation of net estate of a decedent nonresident not a citizen of the United States, and section 1000 (b), relating in part to application of gift tax in the case of a transfer by a nonresident alien, by the addition of specific provisions defining the treatment for purposes of estate tax and gift tax of certain obligations of the United States held or transferred by a nonresident alien not engaged in business in the United States.

The United States Supreme Court, as early as 1900, established the principle that a statutory provision which in general terms exempts property from taxation applies only to a direct tax on such property and does not apply to excise taxes, such as the estate tax or the gift tax which is imposed not on the property itself but on the transfer of the property. *Murdock v. Ward* (178 U. S. 139); *Plummer v. Coler* (178 U. S. 115). However, the Courts of Appeals for the Second and Third Circuits have, in a number of recent cases, held that section 4 of the Victory Liberty Loan Act of March 3, 1919 (40 Stat. 1311; 30 U. S. C. 750), exempted United States Government bonds owned by a nonresident alien individual, not engaged in business within the United States, from estate tax as well as from direct taxes. See *Estate of Karl Jandorf v. Commissioner* (C. A. 2, 1948), 171 F. (2d) 464; *Estate of Irene DeGuebriant v. Commissioner* (C. A. 2, 1951), 186 F. (2d) 307; and *Pennsylvania Co. for Banking and Trusts (Estate of Henry Wallace Burne) v. United States* (C. A. 3, 1950), 185 F. (2d) 125.

Your committee believes that United States obligations in the hands of a nonresident alien not engaged in business in the United States are and should be subject to the principle of *Murdock v. Ward* and *Plummer v. Coler*; accordingly subsection (a) adds a new subsection (c) to section 861 of the code affirmatively so providing in the case of the estate tax. However, in the interest of equity, two exceptions are provided to this rule. First, United States obligations issued before March 1, 1941, are not to be included in the gross estate of a deceased nonresident alien who was not engaged in business in the United States since such issues are exempt under present Treasury regulations. Secondly, the amendment expressly provides that such obligations issued on or after March 1, 1941, are to be included in the gross estate of such a decedent only if the decedent dies after the date of the enactment of the bill.

Subsection (b) of this section is designed to provide a similar result in the case of the gift tax, except that the amendment does not concern itself with gifts made on or before the date of the enactment of the bill. Under the amendment, a gift of such obligations made after the date of the enactment of the bill, by a nonresident alien not engaged in business in the United States, will be subject to the gift tax only if such obligations were issued on or after March 1, 1941. As to gifts made on or before the date of the enactment of the bill, the amendment does not affect any liability for gift tax which may exist under present

law, and is not intended to disturb the rule of existing gift tax regulations which exempts from tax the transfer of such obligations issued before March 1, 1941.

SECTION 604. ESTATE TAX EXEMPTION FOR WORKS OF ART LOANED BY NONRESIDENT ALIENS

This section, for which there is no corresponding provision in the House bill, amends section 863 (c) of the code to extend the estate tax exemption granted by that section with respect to works of art loaned by a nonresident alien to the National Gallery of Art, Washington, D. C., to works of art loaned to other public galleries or museums.

Section 863 (c) of existing law provides that, with respect to estates of decedents dying after September 1, 1950, works of art owned by a nonresident not a citizen of the United States shall not be deemed to be property situated in the United States for purposes of inclusion in the net estate of the nonresident alien if such works of art are (1) imported into the United States solely for exhibition purposes, (2) loaned to the Trustees of the National Gallery of Art solely for exhibition purposes, and (3) at the time of death of the owner, on exhibition, (or en route to or from exhibition) in such National Gallery of Art or in such other public gallery or museum as the Trustees of such National Gallery of Art may have designated.

Under your committee's amendment, the exemption in section 863 (c) will apply not only to works of art loaned to the National Gallery of Art, but also to works of art loaned to other public galleries or museums in the United States no part of the net earnings of which inures to the benefit of any private stockholder or individual. The conditions of the exemption parallel the conditions in existing law, that is, the importation must be solely for exhibition purposes, the works of art must be loaned to the public gallery or museum, and the works of art must, at the time of death of the owner, be on exhibition (or en route to or from exhibition) in a public gallery or museum.

The amendment to section 863 (c) made by this section is applicable only to estates of decedents dying after the date of enactment of this act.

SECTION 605. EXEMPTION FROM ADDITIONAL ESTATE TAX OF MEMBERS OF ARMED FORCES UPON DEATH

This section, for which there is no corresponding provision in the House bill, amends section 939 of the code to provide that the tax imposed by section 935 (the additional estate tax) shall not apply to the transfer of the net estate of a citizen or resident of the United States dying after June 24, 1950, and before January 1, 1954, while in active service as a member of the Armed Forces of the United States, if such decedent (1) was killed in action while serving in a combat zone, as determined under section 22 (b) (13), or (2) died at any place as a result of wounds, disease, or injury suffered, while serving in a combat zone (as determined under section 22 (b) (13)) and while in line of duty, by reason of a hazard to which he was subjected as an incident of such service.

SECTION 606. TRANSFERS CONDITIONED UPON SURVIVORSHIP

This section, for which there is no corresponding provision in the House bill, provides that, in the case of a decedent dying after March 18, 1937, the date of approval of Treasury Decision 4729, and before February 11, 1939, the determination of whether property is to be included in the gross estate of the decedent under section 302 (c) of the Revenue Act of 1926 as a transfer intended to take effect in possession or enjoyment at or after his death shall be made in conformity with the provisions of article 17 of Regulations 80, as amended by such Treasury decision.

SECTION 607. TRANSFERS WITH INCOME RESERVED

This section, for which there is no corresponding provision in the House bill, amends section 7 (b) of Public Law 378, Eighty-first Congress (the Technical Changes Act of 1949). Section 7 (b) now provides that the provisions of section 811 (c) (1) (B) of the code, providing for inclusion in a decedent's estate of property transferred with reservation of rights in income, shall not be applicable to transfers made before March 4, 1931 (and, in some cases, before June 6, 1932), if the decedent died before January 1, 1950. Under your committee's amendment, inapplicability of section 811 (c) (1) (B) is extended to estates of decedents dying before January 1, 1951.

SECTION 608. TRANSFERS TAKING EFFECT AT DEATH

This section, for which there is no corresponding provision in the House bill, amends section 7 (b) of Public Law 378, Eighty-first Congress (the Technical Changes Act of 1949) to provide that the provisions of section 811 (c) (1) (C) of the code (relating to inclusion in gross estate of transfers intended to take effect in possession or enjoyment at or after death) shall not apply to transfers made before September 8, 1916. The effect of the last sentence of this section, which makes section 7 (c) of such public law inapplicable to overpayments resulting from the enactment of this section of the bill, is to limit refunds of such overpayments to those situations in which the refund is not prohibited by the statute of limitations or some other law or rule of law.

SECTION 609. REVERSIONARY INTERESTS IN CASE OF LIFE INSURANCE

This section, for which there is no corresponding provision in the House bill, permits the making of refund or credit of any overpayment resulting from the application of section 503 of the Revenue Act of 1950, if claim therefor is filed within 1 year from the date of enactment of the bill, even though the making of such refund or credit is otherwise prohibited by the statute of limitations or any other law or rule of law (other than section 3760 or 3761 of the code which relate, respectively, to closing agreements and compromises). The effect of section 503 of the Revenue Act of 1950 was to provide that proceeds of life-insurance policies attributable to premiums paid

on or before January 10, 1941, should not be included in the gross estate of the insured person for estate-tax purposes by reason of the fact that the premiums were paid by him, unless on January 10, 1941, or thereafter he had substantial rights in the life-insurance policy.

SECTION 610. INCOME PURSUANT TO AWARD OF INTER-STATE COMMERCE COMMISSION

Section 610, for which there is no corresponding provision in the bill as passed by the House, provides that amounts received pursuant to an award under the order issued under the Railway Mail Pay Act of 1916 by the Interstate Commerce Commission on December 4, 1950, as compensation for the transportation of mail during 1950 and any prior years shall be deemed to be income which accrued in the taxable years in which the services to which such compensation relates were rendered. No interest shall be assessed or collected for any period prior to July 1, 1951, with respect to that part of any deficiency which the Secretary of the Treasury determines to be attributable to the inclusion of income in a taxable year by reason of the application of section 610. A deficiency which is attributable to the inclusion of income in any taxable year by reason of the application of section 610 may be assessed, notwithstanding any provision of law or rule of law which would otherwise prevent such assessment, at any time prior to the expiration of the period for assessment with respect to that taxable year of the taxpayer which includes December 4, 1950.

SECTION 611. CREDIT IN PRIOR TAXABLE YEARS FOR DIVIDENDS RECEIVED ON PREFERRED STOCK OF A PUBLIC UTILITY

The Revenue Act of 1943 amended section 26 (h) (1) of the code by inserting after the first sentence two sentences which excluded from the computation of the credit for dividends paid on the preferred stock of a public utility amounts distributed with respect to dividends unpaid and accumulated in any taxable year ending prior to October 1, 1942. The 1943 act did not contain a conforming amendment to include in the computation of the dividends received credit the amounts excluded from the computation of the credit for dividends paid.

In the case of the calendar year 1951 and taxable years beginning after March 31, 1951, the amounts excluded from the computation of the dividends paid credit will (by reason of the amendments made by section 122 (a) of the bill) be included as dividends to which the 85 percent credit will apply. Section 611 provides the same treatment for taxable years beginning before April 1, 1951.

SECTION 612. CONSOLIDATED RETURNS—INCLUDIBLE CORPORATION

This section of the bill, for which there is no corresponding section in the House bill, provides that, if an affiliated group making a consolidated return with respect to the first taxable year of the group ending after June 30, 1950, included a corporation described in section 452 (f) of the code pursuant to the consent provided in section 141

(e) (7) of the code, such corporation may withdraw such consent at any time within 90 days after the enactment of the Revenue Act of 1951. If such consent is withdrawn under this section the tax liability of the affiliated group and its several members for the taxable year shall be determined, assessed, and collected as if such corporation had never joined in the making of the consolidated return.

SECTION 613. TIME FOR PERFORMING CERTAIN ACTS POSTPONED IN CASE OF CHINA TRADE ACT CORPORATIONS

This section, for which there is no corresponding provision in the House bill, amends section 3805 of the code to provide December 31, 1953, as the due date for China Trade Act corporations, for the filing of returns and paying of the income tax for taxable years beginning after December 31, 1948, and ending before October 1, 1953. The section is to apply only to corporations and for taxable years which the Secretary of the Treasury, under regulations prescribed by him, determines reasonable under the circumstances in China. This provision recognizes that while the present situation in China makes it impossible for many such companies to have access to their records for the purpose of paying tax, certain China Trade Act corporations are fully able to comply with requirements of existing law as to the due dates of income tax returns and the due dates of tax payments.

The December 31, 1953, due date specified in this section is subject to the power of the Secretary to extend the time for filing returns or paying tax as in other cases.

SECTION 614. TREATY OBLIGATIONS

This section, for which there is no corresponding provision in the House bill, provides that no amendment made by the bill shall apply in any case where its application would be contrary to any treaty obligation of the United States.

SECTION 615. REORGANIZATION PLAN NO. 26 OF 1950

Under this section of the bill, which is identical to section 504 of the House bill, the applicable provisions of Reorganization Plan No. 26 of 1950, respecting the Department of the Treasury, particularly section 1 (a) of such plan, transferring certain functions to the Secretary of the Treasury, shall apply to all functions stated to be vested by the Revenue Act of 1951 in any officer, employee, or agency of the Department of the Treasury, even though by such act any function is stated to be vested elsewhere than in the Secretary of the Treasury. Thus, as an example, a requirement in the Revenue Act of 1951 that returns shall be made and taxes due paid by the taxpayer to the collector for the district in which is located the taxpayer's principal place of business, or if he has no principal place of business in the United States, then to the collector at Baltimore, Md., will be given the same effect as a similar requirement in effect at the time when the plan became effective.

Calendar No. 737

82D CONGRESS
1ST SESSION

H. R. 4473

[Report No. 781]

IN THE SENATE OF THE UNITED STATES

JUNE 25 (legislative day, JUNE 21), 1951

Read twice and referred to the Committee on Finance

SEPTEMBER 18 (legislative day, SEPTEMBER 13), 1951

Reported by Mr. GEORGE, with amendments

[Omit the part struck through or enclosed in bold-face brackets and insert the part printed
in italic]

AN ACT

To provide revenue, and for other purposes.

1 *Be it enacted by the Senate and House of Representa-*
2 *tives of the United States of America in Congress assembled,*
3 That (a) SHORT TITLE.—This Act, divided into titles and
4 sections according to the following table of contents, may
5 be cited as the “Revenue Act of 1951”:

TABLE OF CONTENTS

TITLE I—INCREASE IN INCOME TAX RATES

PART I—INDIVIDUAL INCOME TAXES

Sec. 101. Defense tax:

 (a) Increase in rate of tax.

 (b) Amendment of section 12 (b).

 (c) Limitation on tax.

 (d) Technical amendments.

Sec. 102. Individuals with adjusted gross income of less than \$5,000.

Sec. 103. Computation of tax in case of certain joint returns.

Sec. 104. Effective date of part I.

TABLE OF CONTENTS—Continued

TITLE I—INCREASE IN INCOME TAX RATES—Continued

PART II—CORPORATION INCOME TAXES

- Sec. 121. Increase in rate of corporation normal tax.
 - (a) Amendment of section 12.
 - (b) Maximum tax.
 - (c) Mutual insurance companies other than life or marine.
 - (d) Regulated investment companies.
 - (e) Business income of certain section 101 organizations.
 - (f) Technical amendments.
- Sec. 122. Credits of corporations.
 - (a) Dividends received credit.
 - (b) Credit for dividends paid on certain preferred stock.
 - (c) Western Hemisphere trade corporations.
- Sec. 123. Surtax exemptions and certain credits of related corporations.
 - (a) Limitation on surtax exemption in the case of related corporations.
 - (b) Insurance companies.
 - (c) Minimum excess profits credit.
- Sec. 124. Computation of alternative capital gains tax.
 - (a) Alternative tax.
 - (b) Effective date.
- Sec. 125. Effective date.

PART III—FISCAL YEAR TAXPAYERS

- Sec. 131. Fiscal year taxpayers.
 - (a) Amendment of section 108.
 - (b) Computation of excess profits tax.
 - (c) Technical amendments.

TITLE II—WITHHOLDING OF TAX AT SOURCE

PART I—WITHHOLDING OF TAX AT SOURCE ON DIVIDENDS, INTEREST, AND ROYALTIES

- Sec. 201. Collection of income tax at source on dividends, interest, and royalties.
- Sec. 202. Credit for tax withheld.
- Sec. 203. Credits in case of organizations exempt from tax.
- Sec. 204. Technical amendments.
 - (a) Tax computed by collector.
 - (b) Requirement of declaration of estimated tax.
 - (c) Credit under section 143.
 - (d) Credit under section 144.
 - (e) Information at source.
 - (f) Information by corporations.
 - (g) Clerical amendment.
 - (h) Amount of credit considered as payment.
 - (i) Special period of limitations for small refunds on tax withheld at source.
 - (j) Presumptions as to date of payment.
 - (k) Interest on overpayments.
 - (l) Definition of withholding agent.
 - (m) Effective date.

TABLE OF CONTENTS—Continued

TITLE II—WITHHOLDING OF TAX AT SOURCE—Continued

PART II—INCREASE IN WITHHOLDING OF TAX AT SOURCE ON WAGES

- Sec. 221. Percentage method of withholding.
- Sec. 222. Wage bracket withholding.
- Sec. 223. Additional withholding of tax on wages upon agreement by employer and employee.
- Sec. 224. Effective date.

TITLE III—MISCELLANEOUS INCOME TAX AMENDMENTS

- Sec. 301. Tax treatment in case of head of household.
 - (a) Surtax in case of head of household.
 - (b) Effective date.
- Sec. 302. Expenditures in the development of mines.
 - (a) Deduction of expenditures.
 - (b) Adjusted basis for determining gain or loss upon sale or exchange.
 - (c) Technical amendment.
 - (d) Effective date.
- Sec. 303. Gain from sale or exchange of taxpayer's residence.
 - (a) Nonrecognition of gain in certain cases.
 - (b) Technical amendments.
 - (c) Effective date.
- Sec. 304. Percentage depletion.
 - (a) Allowance of percentage depletion.
 - (b) Technical amendment.
 - (c) Effective date.
- Sec. 305. Capital gains and losses.
 - (a) Treatment of long-term capital gains and losses.
 - (b) Alternative tax.
 - (c) Technical amendments.
 - (d) Effective date.
- Sec. 306. Sales of livestock.
- Sec. 307. Tax treatment of coal royalties.
 - (a) Definition of property used in the trade or business.
 - (b) Gain or loss upon certain disposals of timber or coal.
 - (c) Clerical amendment.
 - (d) Effective date.
- Sec. 308. Collapsible corporations.
 - (a) Definitions with respect to collapsible corporations.
 - (b) Limitations on application of section 117 (m).
 - (c) Effective date.
- Sec. 309. Dealers in securities—capital gains and ordinary losses.
- Sec. 310. Treatment of gain on sales of certain property between spouses and between an individual and a controlled corporation.
 - (a) Disallowance of capital gain treatment.
 - (b) Effective date.
- Sec. 311. Life insurance companies.
 - (a) Reserve and other policy liability credit for 1951.
 - (b) Effective date.

TABLE OF CONTENTS—Continued

TITLE III—MISCELLANEOUS INCOME TAX AMENDMENTS—Continued

- Sec. 312. Tax treatment of certain investment companies:
 (a) Inclusion of certain registered management companies in the
 definition of regulated investment company.
 (b) Technical amendment.
 (c) Effective date.
- Sec. 313. Family partnerships:
 (a) Definition of partner.
 (b) Allocation of partnership income.
 (c) Effective date.

TITLE IV—EXCISE TAXES

PART I—TAX ON ADMISSIONS AND CABARETS

- Sec. 401. Removal of tax on free admissions.
- Sec. 402. Exemptions from admissions tax:
 (a) Reinstatement of prewar exemptions.
 (b) Amendment of section 1701 (a).
 (c) Admissions to municipal swimming pools, etc.
- Sec. 403. Effective date of amendments relating to admissions.
- Sec. 404. Tax on cabarets, roof gardens, etc.
 (a) Ballrooms and dance halls.
 (b) Effective date.

PART II—TAX ON CIGARETTES

- Sec. 421. Tax on cigarettes:
 (a) Increase in rate.
 (b) Effective date.
- Sec. 422. Floor stocks tax on cigarettes.

PART III—RETAILERS' EXCISE TAXES

- Sec. 431. Tax on lighters.
- Sec. 432. Retailers' excise tax on toilet preparations:
 (a) Baby oils, etc.
 (b) Sales to barber shops, etc.
- Sec. 433. Effective date of part III.

PART IV—DIESEL FUEL

- Sec. 441. Diesel fuel used in highway vehicles:
 (a) Imposition of tax.
 (b) Effective date.

PART V—LIQUOR

- Sec. 451. Increase in tax on distilled spirits from \$9 to \$10.50 per gallon:
 (a) Distilled spirits generally.
 (b) Imported perfumes containing distilled spirits.
 (c) Floor stocks tax.
- Sec. 452. Wines:
 (a) Increase in rate of tax.
 (b) Floor stocks.

TABLE OF CONTENTS—Continued

TITLE IV—EXCISE TAXES—Continued

PART V—LIQUOR—continued

- Sec. 453. Fermented malt liquor:
- (a) Increase in tax on fermented malt liquors from \$8 to \$9 per barrel.
 - (b) Floor stocks tax.
- Sec. 454. Clerical amendment.
- Sec. 455. Effective date of part V.

PART VI—OCCUPATIONAL TAXES

- Sec. 461. Dealers in liquors:
- (a) Wholesale dealers in liquors.
 - (b) Retail dealers in liquors.
 - (c) Wholesale dealers in malt liquors.
- Sec. 462. Drawback in the case of distilled spirits used in the manufacture of certain nonbeverage products:
- (a) Drawback.
 - (b) Effective date.
 - (c) Technical amendment.
- Sec. 463. Tax on coin-operated gaming devices.
- Sec. 464. Tax on bowling alleys and billiard and pool tables:
- (a) Increase in rate.
 - (b) Clerical amendment.
- Sec. 465. Effective date of part VI.

PART VII—WAGERING

- Sec. 471. Wagering taxes:
- (a) Imposition of taxes.
 - (b) Technical amendment.
- Sec. 472. Effective date of part VII.

PART VIII—MANUFACTURERS' EXCISE TAXES

- Sec. 481. Automobiles, trucks, and parts or accessories:
- (a) Increase in tax on trucks.
 - (b) Increase in tax on passenger automobiles and motoreycles.
 - (c) Increase in tax on parts or accessories.
 - (d) Rebuilt parts or accessories.
 - (e) Technical amendment.
 - (f) Parts or accessories for farm equipment.
 - (g) Effective date of subsection (f).
 - (h) Removal of tax on tires for toys, etc.
- Sec. 482. Navigation receivers sold to the United States:
- (a) Exemption on sales to United States of certain radio sets.
 - (b) Tax-free sales of radio parts.
 - (c) Refund in case of use of parts.
 - (d) Refund in case of resale to United States.
 - (e) Use by manufacturer of taxable parts.
 - (f) Effective dates.

TABLE OF CONTENTS—Continued

TITLE IV—EXCISE TAXES—Continued

PART VIII—MANUFACTURERS' EXCISE TAXES—continued

- Sec. 483. Repeal of tax on certain sporting goods; increase in tax on remaining sporting goods.
- Sec. 484. Addition of certain items to the tax on electric, gas, and oil appliances; removal of tax on electric heating pads.
- Sec. 485. Adjustments of tax rates on photographic apparatus and film; repeal of tax on certain items.
 - (a) Items subject to tax.
 - (b) Floor stocks refunds on bulbs.
- Sec. 486. Imposition of tax on mechanical pencils and fountain and ball point pens.
- Sec. 487. Repeal of tax on electrical energy.
 - (a) Repeal of tax.
 - (b) Effective date.
- Sec. 488. Tax on gasoline.
 - (a) Increase in rate.
 - (b) Floor stocks tax.
- Sec. 489. Effective date of part VIII.

PART IX—MISCELLANEOUS EXCISE TAX AMENDMENTS

- Sec. 491. Reduction of tax on telegraph dispatches.
 - (a) Reduction of tax.
 - (b) Clerical amendment.
 - (c) Effective date.
 - (d) Amounts paid pursuant to bills rendered.
 - (e) Rate reduction date.
- Sec. 492. Exemption of fishing trips from tax on transportation.
 - (a) Exemption.
 - (b) Effective date.
- Sec. 493. Transportation of oil by water.
 - (a) Imposition of tax.
 - (b) Technical amendment.
 - (c) Effective date.
- Sec. 494. Articles from foreign trade zones.
 - (a) Imported articles.
 - (b) Previously taxpaid articles.

TITLE V—MISCELLANEOUS PROVISIONS AND AMENDMENTS

- Sec. 501. Exemption of certain organizations from income tax for prior taxable years.
- Sec. 502. Excess profits credit based on income.
 - (a) Percentage of average base period net income taken into account.
 - (b) Effective date.
- Sec. 503. Estate and gift tax treatment of United States bonds held by certain nonresident aliens.
 - (a) Estate tax.
 - (b) Gift tax.
- Sec. 504. Reorganization Plan Numbered 26 of 1950.

TABLE OF CONTENTS

TITLE I—INCREASE IN INCOME TAX RATES

PART I—INDIVIDUAL INCOME TAXES

- Sec. 101. Increase in surtax for 1951, 1952, and 1953.*
 (a) Rates of surtax.
 (b) Limitation on tax.
Sec. 102. Individuals with adjusted gross income of less than \$5,000.
Sec. 103. Inapplicability of certain penalties and additions to tax.
 (a) Penalties for failure to file return.
 (b) Additions to tax.
Sec. 104. Computation of tax in case of certain joint returns.
Sec. 105. Effective date of Part I.

PART II—CORPORATION INCOME TAXES

- Sec. 121. Increase in rate of corporation normal tax and surtax.*
 (a) Increase in rate of corporation normal tax.
 (b) Increase in rate of corporation surtax.
 (c) Maximum tax.
 (d) Mutual insurance companies other than life or marine.
 (e) Regulated investment companies.
 (f) Business income of certain section 101 organizations.
 (g) Technical amendment.
Sec. 122. Credits of corporations.
 (a) Dividends received credit.
 (b) Credit for dividends paid on certain preferred stock.
 (c) Western hemisphere trade corporations.
Sec. 123. Filing of corporation returns for taxable years ending after
 March 31, 1951 and before October 1, 1951.
Sec. 124. Effective date.

PART III—FISCAL YEAR TAXPAYERS

- Sec. 131. Fiscal year taxpayers.*
 (a) Amendment of section 108.
 (b) Computation of excess profits tax.
 (c) Technical amendments.

TITLE II—WITHHOLDING OF TAX AT SOURCE

- Sec. 201. Percentage method of withholding.*
Sec. 202. Wage bracket withholding.
Sec. 203. Additional withholding of tax on wages upon agreement by
 employer and employee.
Sec. 204. Effective date.

TITLE III—MISCELLANEOUS INCOME TAX AMENDMENTS

- Sec. 301. Tax treatment in case of head of household.*
 (a) Surtax in case of head of household.
 (b) Computation of tax by collector.
 (c) Effective date.
Sec. 302. Payments to beneficiaries of deceased employees.
 (a) Amendment of section 22 (b) (1).
 (b) Effective date.

TABLE OF CONTENTS—Continued

TITLE III—MISCELLANEOUS INCOME TAX AMENDMENTS—Continued

- Sec. 303. Joint and survivor annuities.*
 (a) Amendment of section 22 (b) (2).
 (b) Amendment of section 113 (a) (5).
 (c) Effective dates.
- Sec. 304. Income from discharge of indebtedness.*
 (a) Amendment of section 22 (b) (9).
 (b) Amendment of section 22 (b) (10).
- Sec. 305. Compensation of certain members of the armed forces.*
 (a) Amendment of section 22 (b) (13).
 (b) Definition of service in combat zone.
 (c) Withholding on wages.
 (d) Effective dates.
- Sec. 306. Involuntary liquidation and replacement of inventory.*
 (a) Amendment of section 22 (d) (6) (F) (iii).
 (b) Effective date.
- Sec. 307. Medical expenses.*
 (a) Amendment of section 23 (x).
 (b) Effective date.
- Sec. 308. Standard deduction.*
 (a) Method of election.
 (b) Change of election.
 (c) Effective date.
- Sec. 309. Expenditures in the development of mines.*
 (a) Deduction of expenditures.
 (b) Adjusted basis for determining gain or loss upon sale or exchange.
 (c) Technical amendment.
 (d) Effective date.
- Sec. 310. Gross income of dependent of taxpayer.*
 (a) Increase in amount of gross income permitted.
 (b) Effective date.
- Sec. 311. Credit for dividends received.*
 (a) Dividends from foreign corporation engaged in trade or business in the United States.
 (b) Technical amendment.
 (c) Effective date.
- Sec. 312. Joint return after filing separate return.*
 (a) Change of election.
 (b) Effective date.
- Sec. 313. Mutual savings banks, building and loan associations, cooperative banks.*
 (a) Mutual savings banks.
 (b) Building and loan associations and cooperative banks.
 (c) Federal savings and loan associations.
 (d) Bad debt reserves.
 (e) Dividends paid to depositors.
 (f) Deduction for repayment to the United States of certain loans.
 (g) Definition of bank.
 (h) Definition of domestic building and loan association.
 (i) Effective date.

TABLE OF CONTENTS—Continued

TITLE III—MISCELLANEOUS INCOME TAX AMENDMENTS—Continued

- Sec. 314. Income tax treatment of exempt cooperatives.*
 (a) Amendment of section 101 (12).
 (b) Technical amendments.
 (c) Information returns.
 (d) Withholding of tax at source.
 (e) Effective date.
- Sec. 315. Surtax on corporations improperly accumulating surplus.*
 (a) Long-term capital gains.
 (b) Effective date.
- Sec. 316. Election as to recognition of gain in certain corporate liquidations.*
 (a) Amendment of section 112 (b) (7).
 (b) Basis of property.
 (c) Effective date.
- Sec. 317. Certain distributions of stock on reorganization.*
 (a) Distributions not in liquidation.
 (b) Basis of stock.
 (c) Effective date.
- Sec. 318. Gain from sale or exchange of taxpayer's residence.*
 (a) Nonrecognition of gain in certain cases.
 (b) Technical amendments.
 (c) Effective date.
- Sec. 319. Percentage depletion.*
 (a) Allowance of percentage depletion.
 (b) Technical amendment.
 (c) Effective date.
- Sec. 320. Redemption of stock to pay death taxes.*
 (a) Amendment of section 115 (g) (3).
 (b) Effective date.
- Sec. 321. Earned income from sources without the United States.*
 (a) Exclusion from gross income.
 (b) Withholding of tax on wages.
 (c) Effective dates.
- Sec. 322. Capital gains and losses.*
 (a) Treatment of long-term capital gains and losses.
 (b) Alternative tax.
 (c) Technical amendments.
 (d) Effective date.
- Sec. 323. Sale of land with unharvested crop.*
 (a) Treatment of gain or loss.
 (b) Treatment of deductions.
 (c) Effective date.
- Sec. 324. Sales of livestock.*
- Sec. 325. Tax treatment of coal royalties.*
 (a) Definition of property used in the trade or business.
 (b) Gain or loss upon certain disposals of timber or coal.
 (c) Clerical amendment.
 (d) Technical amendment.
 (e) Conforming amendments.
 (f) Effective date.

TABLE OF CONTENTS—Continued

TITLE III—MISCELLANEOUS INCOME TAX AMENDMENTS—Continued

- Sec. 326. Collapsible corporations.*
 (a) *Definitions with respect to collapsible corporations.*
 (b) *Limitations on application of section 117 (m).*
 (c) *Effective date.*
- Sec. 327. Dealers in securities—capital gains and ordinary losses.*
- Sec. 328. Receipts of certain termination payments by employee.*
 (a) *Taxability to employee as capital gain.*
 (b) *Effective date.*
- Sec. 329. Net operating loss carry-over.*
 (a) *Loss for taxable year beginning before 1948.*
 (b) *Allowance of four-year loss carry-over from taxable years 1948–1949.*
 (c) *Effective date.*
- Sec. 330. Stock options.*
 (a) *Option subject to stockholder approval.*
 (b) *Effective date.*
- Sec. 331. Credit for taxes of foreign corporation.*
 (a) *Foreign subsidiary of a domestic corporation.*
 (b) *Foreign subsidiary of a foreign corporation.*
 (c) *Clerical amendment.*
- Sec. 332. Information at source on payments of interest.*
- Sec. 333. Abatement of income tax for certain members of armed forces upon death.*
- Sec. 334. Employees' trusts.*
 (a) *Amendment of section 165 (b).*
 (b) *Effective date.*
- Sec. 335. Life insurance companies.*
 (a) *Tax for 1951.*
 (b) *Adjusted normal-tax net income for 1951.*
 (c) *Technical amendments.*
 (d) *Effective dates.*
- Sec. 336. Tax treatment of certain investment companies.*
 (a) *Inclusion of certain registered management companies in the definition of regulated investment company.*
 (b) *Technical amendment.*
 (c) *Effective date.*
- Sec. 337. Exchanges and distributions in obedience to orders of Securities and Exchange Commission.*
 (a) *Definition of system group.*
 (b) *Effective date.*
- Sec. 338. Taxation of business income of State colleges and universities.*
 (a) *Amendment of section 421 (b).*
 (b) *Unrelated trade or business.*
 (c) *Effective date.*

TABLE OF CONTENTS—*Continued*TITLE III—MISCELLANEOUS INCOME TAX AMENDMENTS—*Continued**Sec. 339. Family partnerships.*

- (a) *Definition of partner.*
- (b) *Allocation of partnership income.*
- (c) *Effective date.*

Sec. 340. War losses.

- (a) *Tax upon war loss recovery.*
- (b) *Basis of recovered property.*
- (c) *Credit for foreign taxes.*
- (d) *Effective dates.*

Sec. 341. Deduction of expenditures for mine exploration.

- (a) *Deduction of mine exploration expenditures.*
- (b) *Adjusted basis for determining gain or loss upon sale or exchange.*
- (c) *Effective date.*

Sec. 342. Corporate liquidations.

- (a) *Treatment of gain.*
- (b) *Effective date.*

Sec. 343. Definition of employee.

- (a) *Amendment of section 3797 (a).*
- (b) *Effective date.*

TITLE IV—EXCISE TAXES

PART I—TAX ON ADMISSIONS AND CABARETS

*Sec. 401. Removal of tax on free admissions.**Sec. 402. Exemptions from admissions tax.*

- (a) *Reinstatement of prewar exemptions.*
- (b) *Amendment of section 1701 (a) and (b).*
- (c) *Admissions to municipal swimming pools, etc.*

*Sec. 403. Effective date of amendments relating to admissions.**Sec. 404. Tax on cabarets, roof gardens, etc.*

- (a) *Ballrooms and dance halls.*
- (b) *Effective date.*

PART II—TAX ON CIGARETTES

Sec. 421. Tax on cigarettes.

- (a) *Increase in rate.*
- (b) *Effective date.*

*Sec. 422. Floor stocks tax and floor stocks refund on cigarettes.**Sec. 423. Reduction of tax on snuff and chewing tobacco.*

- (a) *Reduction in rate.*
- (b) *Effective date.*

PART III—RETAILERS' EXCISE TAXES

Sec. 431. Retailers' excise tax on toilet preparations.

- (a) *Baby oils, etc.*
- (b) *Sales to barber shops, etc.*

Sec. 432. Effective date of Part III.

TABLE OF CONTENTS—Continued

TITLE IV—EXCISE TAXES—Continued

PART IV—LIQUOR

- Sec. 441. Increase in tax on distilled spirits from \$9 to \$10.50 per gallon.*
 (a) *Distilled spirits generally.*
 (b) *Imported perfumes containing distilled spirits.*
 (c) *Floor stocks tax.*
- Sec. 442. Wines.*
 (a) *Increase in rate of tax.*
 (b) *Floor stocks.*
- Sec. 443. Fermented malt liquor.*
 (a) *Increase in tax on fermented malt liquors from \$8 to \$9 per barrel.*
 (b) *Floor stocks tax.*
- Sec. 444. Floor stocks refunds.*
 (a) *Amendment of section 1656 (a).*
 (b) *Amendment of section 1656 (b).*
- Sec. 445. Clerical amendment.*
- Sec. 446. Effective date of Part IV.*

PART V—OCCUPATIONAL TAXES

- Sec. 451. Dealers in liquors.*
 (a) *Wholesale dealers in liquors.*
 (b) *Retail dealers in liquors.*
 (c) *Wholesale dealers in malt liquors.*
- Sec. 452. Drawback in the case of distilled spirits used in the manufacture of certain nonbeverage products.*
 (a) *Drawback.*
 (b) *Effective date.*
- Sec. 453. Tax on coin-operated gaming devices.*
- Sec. 454. Effective date of Part V.*

PART VI—WAGERING

- Sec. 461. Wagering taxes.*
 (a) *Imposition of taxes.*
 (b) *Technical amendment.*
- Sec. 462. Effective date of Part VI.*

PART VII—MANUFACTURERS' EXCISE TAXES

- Sec. 471. Automobiles, trucks, and parts or accessories.*
 (a) *Increase in tax on trucks.*
 (b) *Increase in tax on passenger automobiles and motorcycles.*
 (c) *Increase in tax on parts or accessories.*
 (d) *Rebuilt parts or accessories.*
 (e) *Technical amendment.*
 (f) *Parts or accessories for farm equipment.*
 (g) *Effective date of subsection (f).*
 (h) *Removal of tax on tires for toys, etc.*

TABLE OF CONTENTS—Continued

TITLE IV—EXCISE TAXES—Continued

PART VII—MANUFACTURERS' EXCISE TAXES—continued

- Sec. 472. Navigation receivers sold to the United States.*
 (a) Exemption on sales to United States of certain radio sets.
 (b) Tax-free sales of radio parts.
 (c) Refund in case of use of parts.
 (d) Refund in case of resale to United States.
 (e) Use by manufacturer of taxable parts.
 (f) Effective dates.
- Sec. 473. Tax-free sales of refrigerator components to wholesalers for resale to manufacturers.*
- Sec. 474. Sporting goods.*
- Sec. 475. Electric, gas, and oil appliances.*
 (a) Items subject to tax.
 (b) Determination of sale price.
- Sec. 476. Photographic apparatus.*
- Sec. 477. Imposition of tax on mechanical pencils, fountain and ball point pens, and mechanical lighters for cigarettes, cigars, and pipes.*
- Sec. 478. Repeal of tax on electrical energy.*
 (a) Repeal of tax.
 (b) Effective date.
- Sec. 479. Tax on gasoline.*
 (a) Increase in rate.
 (b) Floor stocks tax and refund.
- Sec. 480. Effective date of Part VII.*

PART VIII—MISCELLANEOUS EXCISE TAX AMENDMENTS

- Sec. 481. Reduction of tax on telegraph dispatches.*
 (a) Reduction of tax.
 (b) Effective date.
 (c) Amounts paid pursuant to bills rendered.
 (d) Rate reduction date.
- Sec. 482. Exemption of certain overseas telephone calls from the tax on telephone facilities.*
 (a) Telephone calls from members of armed forces in combat zones.
 (b) Effective date.
- Sec. 483. Exemption of fishing trips from tax on transportation.*
 (a) Exemption.
 (b) Effective date.
- Sec. 484. Tax on transportation of persons.*
 (a) Exemption of certain foreign travel.
 (b) Effective date.
- Sec. 485. Transportation of material excavated in the course of construction work.*
 (a) Amendment of section 3475.
 (b) Effective date.
- Sec. 486. Articles from foreign trade zones.*
 (a) Imported articles.
 (b) Previously taxpaid articles.
- Sec. 487. Refunds on articles from foreign trade zones.*
 (a) Imported articles.
 (b) Previously taxpaid articles.

TABLE OF CONTENTS—Continued

TITLE V—EXCESS PROFITS TAX

- Sec. 501. Maximum tax for new corporations.*
- Sec. 502. Payments from foreign sources for technical assistance, etc.*
 - (a) Amendment of section 433 (a) (1).*
 - (b) Amendment of section 433 (b).*
- Sec. 503. Average base period net income in case of certain fiscal year taxpayers.*
- Sec. 504. Average base period net income—alternative based on growth in case of new corporations.*
 - (a) General rule.*
 - (b) Amendment of part II.*
- Sec. 505. Average base period net income—alternative based on growth.*
- Sec. 506. Adjustments for changes in inadmissible assets in case of banks.*
 - (a) Amendment of section 435 (g).*
 - (b) Amendment of section 438.*
 - (c) Amendment of section 435 (f).*
- Sec. 507. Decrease in inadmissible assets.*
- Sec. 508. Election with respect to certain inadmissible assets.*
 - (a) Amendment of section 440.*
 - (b) Amendment of section 433 (a) (1).*
 - (c) Amendment of section 433 (b).*
- Sec. 509. Alternative average base period net income.*
 - (a) Amendment of section 442.*
 - (b) Technical amendments.*
- Sec. 510. Definition of total assets for purposes of sections 442–446.*
- Sec. 511. Average base period net income—change in products or services.*
- Sec. 512. Average base period net income—new corporation.*
- Sec. 513. Excess profits credit—regulated public utilities.*
- Sec. 514. Consolidated returns of regulated public utilities.*
- Sec. 515. Nontaxable income from certain mining properties.*
- Sec. 516. Transition from war production and increase in peacetime capacity.*
 - (a) In general.*
 - (b) Technical amendments.*
- Sec. 517. Base period catastrophe.*
- Sec. 518. Consolidation of newspapers.*
- Sec. 519. Television broadcasting companies.*
- Sec. 520. Excess profits credit based on income in connection with certain taxable acquisitions.*
 - (a) General rule.*
 - (b) Technical amendments.*
- Sec. 521. Effective date of title V.*

TITLE VI—MISCELLANEOUS PROVISIONS AND AMENDMENTS

- Sec. 601. Exemption of certain organizations from income tax for prior taxable years.*
- Sec. 602. Foreign estate tax credit.*
 - (a) Credit against basic estate tax.*
 - (b) Credit against additional estate tax.*
 - (c) Reversionary or remainder interest.*
 - (d) Extension of period of limitations, etc., in case of recovery of taxes claimed as credit.*
 - (e) Effective date.*

TABLE OF CONTENTS—Continued

TITLE VI—MISCELLANEOUS PROVISIONS AND AMENDMENTS—Continued

Sec. 603. Estate and gift tax treatment of United States bonds held by certain nonresident aliens.

(a) Estate tax.

(b) Gift tax.

Sec. 604. Estate tax exemption for works of art loaned by nonresident aliens.

(a) Amendment of section 863 (c).

(b) Effective date.

Sec. 605. Exemption from additional estate tax of members of armed forces upon death.

Sec. 606. Transfers conditioned upon survivorship.

Sec. 607. Transfers with income reserved.

Sec. 608. Transfers taking effect at death.

Sec. 609. Reversionary interests in case of life insurance.

Sec. 610. Income pursuant to award of Interstate Commerce Commission.

Sec. 611. Credit in prior taxable years for dividends received on preferred stock of a public utility.

Sec. 612. Consolidated returns—includible corporations.

Sec. 613. Time for performing certain acts postponed in case of China Trade Act corporations.

Sec. 614. Treaty obligations.

Sec. 615. Reorganization Plan Numbered 26 of 1950.

1 (b) ACT AMENDATORY OF INTERNAL REVENUE
2 CODE.—Except as otherwise expressly provided, wherever
3 in this Act an amendment or repeal is expressed in terms of
4 an amendment to or repeal of a chapter, subchapter, title,
5 supplement, section, subsection, subdivision, paragraph, sub-
6 paragraph, or clause, the reference shall be considered to be
7 made to a provision of the Internal Revenue Code.

8 (c) MEANING OF TERMS USED.—Except as otherwise
9 expressly provided, terms used in this Act shall have the
10 same meaning as when used in the Internal Revenue Code.

1 **TITLE I—INCREASE IN INCOME TAX RATES**

2 **PART I—INDIVIDUAL INCOME TAXES**

3 **SEC. 101. DEFENSE TAX.**

4 ~~“(a) INCREASE IN RATE OF TAX.~~—Part I of subchapter
5 B of chapter 1 is hereby amended by adding at the end
6 thereof the following new section:

7 **“SEC. 16. DEFENSE TAX**

8 ~~“(a) INDIVIDUALS—CALENDAR YEAR 1951.~~—In the
9 case of a taxable year beginning on January 1, 1951, and
10 ending on December 31, 1951, the amount of the combined
11 normal tax and surtax under sections 11 and 12, and the
12 amount of the combined normal tax and surtax under section
13 421 (a) (2), shall be the amount of such combined tax
14 computed without regard to this section, increased by 4 per
15 centum.

16 ~~“(b) INDIVIDUALS—TAXABLE YEARS BEGINNING~~
17 ~~AFTER AUGUST 31, 1951.~~—In the case of taxable years
18 beginning after August 31, 1951, the amount of the com-
19 bined normal tax and surtax under sections 11 and 12, and
20 the amount of the combined normal tax and surtax under
21 section 421 (a) (2), shall be the amount of such combined
22 tax computed without regard to this section, increased by
23 $12\frac{1}{2}$ per centum.

1 “(e) ~~ALTERNATIVE CAPITAL GAINS TAX.~~—

2 “(1) ~~CALENDAR YEAR 1951.~~—In computing an
3 alternative tax under paragraph (1) or (2) of section
4 117 (c) for a taxable year beginning on January 1,
5 1951, and ending on December 31, 1951, the amount to
6 be added to the partial tax under such paragraph shall
7 be increased by 4 per centum.

8 “(2) ~~TAXABLE YEARS BEGINNING AFTER AUGUST~~
9 31, 1951.—In computing an alternative tax under para-
10 graph (1) or (2) of section 117 (c) for a taxable year
11 beginning after August 31, 1951, the amount to be
12 added to the partial tax under such paragraph shall be
13 increased by $12\frac{1}{2}$ per centum.

14 “(3) ~~TAXABLE YEARS BEGINNING BEFORE SEP-~~
15 ~~TEMBER 1, 1951, AND ENDING AFTER AUGUST 31,~~
16 1951.—In computing an alternative tax under paragraph
17 (1) or (2) of section 117 (c) for a taxable year (other
18 than one beginning on January 1, 1951, and ending on
19 December 31, 1951) beginning before September 1,
20 1951, and ending after August 31, 1951, the amount
21 to be added to the partial tax under such paragraph shall
22 be increased by a percentage which bears the same

1 ratio to $12\frac{1}{2}$ per centum as the number of months in
2 such taxable year after August 31, 1951, bears to the
3 total number of calendar months in such taxable year.
4 For the purposes of this paragraph, a calendar month
5 only part of which falls within a taxable year (A)
6 shall be disregarded if less than 15 days of such month
7 are included in such taxable year, and (B) shall be
8 included as a calendar month within the taxable year
9 if more than 14 days of such month fall within the tax-
10 able year."

11 ~~(b) AMENDMENT OF SECTION 12 (b).~~—Section 12
12 ~~(b) (relating to rates of surtax)~~ is hereby amended by
13 striking out paragraph ~~(2)~~ and inserting in lieu thereof
14 the following:

15 "In the case of a head of a household, the tax imposed
16 by this subsection shall not apply to any taxable year
17 beginning after August 31, 1951. In the case of an
18 individual whose surtax net income for the taxable year
19 is over \$90,000, the tax imposed by this paragraph
20 shall not apply if the defense tax provided in section 16
21 is applicable to such taxable year.

22 "~~(2) SURTAX NET INCOME OVER \$90,000—CAL~~

1 ~~ENDAR YEAR 1951.~~ In the case of a taxable year
 2 beginning on January 1, 1951, and ending on December
 3 31, 1951, if the surtax net income of the individual
 4 is over \$90,000, there shall be levied, collected, and
 5 paid for such taxable year upon the surtax net income
 6 of such individual the surtax shown in the following
 7 table:

If the surtax net income is:	The surtax shall be:
Over \$90,000 but not over \$100,000_	\$55,920 plus 83% of excess over \$90,000.
Over \$100,000 but not over \$150,000.	\$61,220 plus 84% of excess over \$100,000.
Over \$150,000 but not over \$200,000.	\$106,220 plus 85% of excess over \$150,000.
Over \$200,000_-----	\$148,720 plus 86% of excess over \$200,000.

8 ~~“(3) SURTAX NET INCOME OVER \$90,000—TAX-~~
 9 ~~ABLE YEARS BEGINNING AFTER AUGUST 31, 1951.—~~

10 In the case of a taxable year beginning after August 31,
 11 1951, to which the defense tax provided by section 16
 12 is applicable, if the surtax net income of the individual for
 13 the taxable year is over \$90,000, there shall be levied,
 14 collected, and paid for such taxable year upon the
 15 surtax net income of such individual a surtax of \$55,920
 16 plus 81 per centum of the excess over \$90,000.”

17 ~~(c) LIMITATION ON TAX.—Section 12 (f) (relating to~~
 18 ~~limitation on tax) is hereby amended to read as follows:~~

1 “(f) ~~LIMITATION ON TAX.~~—

2 “(1) ~~TAXABLE YEARS TO WHICH DEFENSE TAX~~
3 ~~DOES NOT APPLY.~~—In the case of a taxable year be-
4 ginning after September 30, 1950, other than a taxable
5 year to which paragraph (2) or (3) is applicable, the
6 combined normal tax and surtax shall in no event exceed
7 87 per centum of the net income for the taxable year.

8 “(2) ~~CALENDAR YEAR 1951.~~—In the case of a
9 taxable year beginning on January 1, 1951, and end-
10 ing December 31, 1951, the combined normal tax and
11 surtax, increased as provided in section 16, shall in no
12 event exceed 88 per centum of the net income for the
13 taxable year.

14 “(3) ~~OTHER TAXABLE YEARS TO WHICH DEFENSE~~
15 ~~TAX APPLIES.~~—In the case of a taxable year beginning
16 after August 31, 1951, to which the defense tax provided
17 in section 16 is applicable, the combined normal tax
18 and surtax, increased as provided in section 16, shall in
19 no event exceed 90 per centum of the net income for
20 the taxable year.”

21 “(d) ~~TECHNICAL AMENDMENTS.~~—

22 “(1) Section 11 (a) (relating to normal tax on
23 individuals) is hereby amended by adding at the end

1 thereof the following new sentence: "For percentage
2 increase in the amount of tax for the calendar year 1951
3 and for taxable years beginning after August 31, 1951,
4 see section 16."

5 ~~(2)~~ Section 12 ~~(g)~~ ~~(cross references)~~ is hereby
6 amended by adding at the end thereof the following:

7 ~~"(7)~~ DEFENSE TAX.—For percentage increase in
8 the amount of tax for the calendar year 1951 and for
9 taxable years beginning after August 31, 1951, see sec-
10 tion 16.

11 ~~"(8)~~ COMPUTATION OF TAX FOR CERTAIN FISCAL
12 YEARS.—For computation of tax in the case of taxable
13 years ~~(other than the calendar year 1951)~~ beginning
14 before September 1, 1951, and ending after August 31,
15 1951, see section 108 ~~(h)~~."

16 **SEC. 102. INDIVIDUALS WITH ADJUSTED GROSS INCOME**
17 **OF LESS THAN \$5,000.**

18 Section 400 ~~(relating to optional tax on individuals~~
19 ~~with adjusted gross incomes of less than \$5,000)~~ is hereby
20 amended by striking out the tables contained therein and
21 inserting in lieu thereof the following:

"Table I

"Taxable year beginning January 1, 1951, and ending
December 31, 1951

If adjusted gross income is—		And the number of exemptions is—				If adjusted gross income is—		And the number of exemptions is—									
At least	But less than	1	2	3	4 or more	At least	But less than	1	2		3		4	5	6	7	8 or more
									And if other than a joint return is filed	And if a joint return is filed	And if other than a joint return is filed	And if a joint return is filed					
									The income and defense tax shall be—								
\$0	\$675	\$0	\$0	\$0	\$0	\$2,325	\$2,350	\$313	\$188	\$188	\$63	\$63	\$0	\$0	\$0	\$0	\$0
675	700	4	0	0	0	2,350	2,375	317	193	193	68	68	0	0	0	0	0
700	725	9	0	0	0	2,375	2,400	322	197	197	73	73	0	0	0	0	0
725	750	13	0	0	0	2,400	2,425	327	202	202	77	77	0	0	0	0	0
750	775	18	0	0	0	2,425	2,450	332	207	207	82	82	0	0	0	0	0
775	800	23	0	0	0	2,450	2,475	336	211	211	87	87	0	0	0	0	0
800	825	27	0	0	0	2,475	2,500	341	216	216	91	91	0	0	0	0	0
825	850	32	0	0	0	2,500	2,525	346	221	221	96	96	0	0	0	0	0
850	875	37	0	0	0	2,525	2,550	350	225	225	101	101	0	0	0	0	0
875	900	41	0	0	0	2,550	2,575	355	230	230	105	105	0	0	0	0	0
900	925	46	0	0	0	2,575	2,600	360	235	235	110	110	0	0	0	0	0
925	950	51	0	0	0	2,600	2,625	364	239	239	115	115	0	0	0	0	0
950	975	55	0	0	0	2,625	2,650	369	244	244	119	119	0	0	0	0	0
975	1,000	60	0	0	0	2,650	2,675	374	249	249	124	124	0	0	0	0	0
1,000	1,025	65	0	0	0	2,675	2,700	378	254	254	129	129	4	0	0	0	0
1,025	1,050	69	0	0	0	2,700	2,725	383	258	258	133	133	9	0	0	0	0
1,050	1,075	74	0	0	0	2,725	2,750	388	263	263	138	138	13	0	0	0	0
1,075	1,100	79	0	0	0	2,750	2,775	392	268	268	143	143	18	0	0	0	0
1,100	1,125	83	0	0	0	2,775	2,800	397	272	272	147	147	23	0	0	0	0
1,125	1,150	88	0	0	0	2,800	2,825	402	277	277	152	152	27	0	0	0	0
1,150	1,175	93	0	0	0	2,825	2,850	406	282	282	157	157	32	0	0	0	0
1,175	1,200	98	0	0	0	2,850	2,875	411	286	286	161	161	37	0	0	0	0
1,200	1,225	102	0	0	0	2,875	2,900	416	291	291	166	166	41	0	0	0	0
1,225	1,250	107	0	0	0	2,900	2,925	421	296	296	171	171	46	0	0	0	0
1,250	1,275	112	0	0	0	2,925	2,950	426	300	300	176	176	51	0	0	0	0
1,275	1,300	116	0	0	0	2,950	2,975	431	305	305	180	180	55	0	0	0	0
1,300	1,325	121	0	0	0	2,975	3,000	436	310	310	185	185	60	0	0	0	0
1,325	1,350	126	1	0	0	3,000	3,050	444	317	317	192	192	67	0	0	0	0
1,350	1,375	130	5	0	0	3,050	3,100	454	326	326	201	201	76	0	0	0	0
1,375	1,400	135	10	0	0	3,100	3,150	465	335	335	211	211	86	0	0	0	0
1,400	1,425	140	15	0	0	3,150	3,200	475	345	345	220	220	95	0	0	0	0
1,425	1,450	144	20	0	0	3,200	3,250	485	354	354	229	229	105	0	0	0	0
1,450	1,475	149	24	0	0	3,250	3,300	496	363	363	239	239	114	0	0	0	0
1,475	1,500	154	29	0	0	3,300	3,350	506	373	373	248	248	123	0	0	0	0
1,500	1,525	158	34	0	0	3,350	3,400	516	382	382	257	257	133	8	0	0	0
1,525	1,550	163	38	0	0	3,400	3,450	526	392	392	267	267	142	17	0	0	0
1,550	1,575	168	43	0	0	3,450	3,500	537	401	401	276	276	151	27	0	0	0
1,575	1,600	172	48	0	0	3,500	3,550	547	410	410	285	285	161	36	0	0	0
1,600	1,625	177	52	0	0	3,550	3,600	557	420	420	295	295	170	45	0	0	0
1,625	1,650	182	57	0	0	3,600	3,650	568	430	429	304	304	179	55	0	0	0
1,650	1,675	186	62	0	0	3,650	3,700	578	441	438	314	314	189	64	0	0	0
1,675	1,700	191	66	0	0	3,700	3,750	588	451	448	323	323	198	73	0	0	0
1,700	1,725	196	71	0	0	3,750	3,800	598	461	457	332	332	207	83	0	0	0
1,725	1,750	200	76	0	0	3,800	3,850	609	471	466	342	342	217	92	0	0	0
1,750	1,775	205	80	0	0	3,850	3,900	619	482	476	351	351	226	101	0	0	0
1,775	1,800	210	85	0	0	3,900	3,950	629	492	485	360	360	236	111	0	0	0
1,800	1,825	215	90	0	0	3,950	4,000	640	502	495	370	370	245	120	0	0	0
1,825	1,850	219	94	0	0	4,000	4,050	650	513	504	379	379	254	129	5	0	0
1,850	1,875	224	99	0	0	4,050	4,100	660	523	513	388	388	264	139	14	0	0
1,875	1,900	229	104	0	0	4,100	4,150	671	533	523	398	398	273	148	23	0	0
1,900	1,925	233	108	0	0	4,150	4,200	681	544	532	407	407	282	158	33	0	0
1,925	1,950	238	113	0	0	4,200	4,250	691	554	541	417	417	292	167	42	0	0
1,950	1,975	243	118	0	0	4,250	4,300	701	564	551	427	426	301	176	51	0	0
1,975	2,000	247	122	0	0	4,300	4,350	712	574	560	437	435	310	186	61	0	0
2,000	2,025	252	127	2	0	4,350	4,400	722	585	569	447	445	320	195	70	0	0
2,025	2,050	257	132	7	0	4,400	4,450	732	595	579	458	454	329	204	80	0	0
2,050	2,075	261	137	12	0	4,450	4,500	743	605	588	468	463	339	214	89	0	0
2,075	2,100	266	141	16	0	4,500	4,550	753	616	597	478	473	348	223	98	0	0
2,100	2,125	271	146	21	0	4,550	4,600	763	626	607	489	482	357	232	108	0	0
2,125	2,150	275	151	26	0	4,600	4,650	774	636	616	499	491	367	242	117	0	0
2,150	2,175	280	155	30	0	4,650	4,700	784	647	626	509	501	376	251	126	2	0
2,175	2,200	285	160	35	0	4,700	4,750	794	657	635	520	510	385	261	136	11	0
2,200	2,225	289	165	40	0	4,750	4,800	804	667	644	530	519	395	270	145	20	0
2,225	2,250	294	169	44	0	4,800	4,850	815	677	654	540	529	404	279	154	30	0
2,250	2,275	299	174	49	0	4,850	4,900	825	688	663	550	538	413	289	164	39	0
2,275	2,300	303	179	54	0	4,900	4,950	835	698	672	561	548	423	298	173	48	0
2,300	2,325	308	183	59	0	4,950	5,000	846	708	682	571	557	432	307	183	58	0

"Table II

"Taxable years beginning after August 31, 1951

If adjusted gross income is—		And the number of exemptions is—				If adjusted gross income is—		And the number of exemptions is—													
At least	But less than	1	2	3	4 or more	At least	But less than	1			2			3			4	5	6	7	8 or more
								And tax-payer is single or married filing separately	And tax-payer is head of household	And tax-payer is single or married filing separately	And tax-payer is head of household	And a joint return is filed	And tax-payer is single or married filing separately	And tax-payer is head of household	And a joint return is filed						
The income and defense tax shall be—																					
\$0	\$675	\$0	\$0	\$0	\$0	\$2,325	\$2,350	\$338	\$338	\$203	\$203	\$203	\$68	\$68	\$68	\$0	\$0	\$0	\$0	\$0	
675	700	4	0	0	0	2,350	2,375	343	343	208	208	208	73	73	73	0	0	0	0	0	
700	725	9	0	0	0	2,375	2,400	348	348	213	213	213	78	78	78	0	0	0	0	0	
725	750	14	0	0	0	2,400	2,425	354	354	219	219	219	84	84	84	0	0	0	0	0	
750	775	19	0	0	0	2,425	2,450	359	359	224	224	224	89	89	89	0	0	0	0	0	
775	800	24	0	0	0	2,450	2,475	364	364	229	229	229	94	94	94	0	0	0	0	0	
800	825	30	0	0	0	2,475	2,500	369	369	234	234	234	99	99	99	0	0	0	0	0	
825	850	35	0	0	0	2,500	2,525	374	374	239	239	239	104	104	104	0	0	0	0	0	
850	875	40	0	0	0	2,525	2,550	379	379	244	244	244	109	109	109	0	0	0	0	0	
875	900	45	0	0	0	2,550	2,575	384	384	249	249	249	114	114	114	0	0	0	0	0	
900	925	50	0	0	0	2,575	2,600	389	389	254	254	254	119	119	119	0	0	0	0	0	
925	950	55	0	0	0	2,600	2,625	394	394	259	259	259	124	124	124	0	0	0	0	0	
950	975	60	0	0	0	2,625	2,650	399	399	264	264	264	129	129	129	0	0	0	0	0	
975	1,000	65	0	0	0	2,650	2,675	404	404	269	269	269	134	134	134	0	0	0	0	0	
1,000	1,025	70	0	0	0	2,675	2,700	409	409	274	274	274	139	139	139	4	0	0	0	0	
1,025	1,050	75	0	0	0	2,700	2,725	414	414	279	279	279	144	144	144	9	0	0	0	0	
1,050	1,075	80	0	0	0	2,725	2,750	419	419	284	284	284	149	149	149	14	0	0	0	0	
1,075	1,100	85	0	0	0	2,750	2,775	424	424	289	289	289	154	154	154	19	0	0	0	0	
1,100	1,125	90	0	0	0	2,775	2,800	429	429	294	294	294	159	159	159	24	0	0	0	0	
1,125	1,150	95	0	0	0	2,800	2,825	435	435	300	300	300	165	165	165	30	0	0	0	0	
1,150	1,175	100	0	0	0	2,825	2,850	440	440	305	305	305	170	170	170	35	0	0	0	0	
1,175	1,200	105	0	0	0	2,850	2,875	445	445	310	310	310	175	175	175	40	0	0	0	0	
1,200	1,225	111	0	0	0	2,875	2,900	450	450	315	315	315	180	180	180	45	0	0	0	0	
1,225	1,250	116	0	0	0	2,900	2,925	455	455	320	320	320	185	185	185	50	0	0	0	0	
1,250	1,275	121	0	0	0	2,925	2,950	461	460	325	325	325	190	190	190	55	0	0	0	0	
1,275	1,300	126	0	0	0	2,950	2,975	466	466	330	330	330	195	195	195	60	0	0	0	0	
1,300	1,325	131	0	0	0	2,975	3,000	472	471	335	335	335	200	200	200	65	0	0	0	0	
1,325	1,350	136	1	0	0	3,000	3,050	480	479	343	343	343	208	208	208	73	0	0	0	0	
1,350	1,375	141	6	0	0	3,050	3,100	491	490	353	353	353	218	218	218	83	0	0	0	0	
1,375	1,400	146	11	0	0	3,100	3,150	503	500	363	363	363	228	228	228	93	0	0	0	0	
1,400	1,425	151	16	0	0	3,150	3,200	514	511	373	373	373	238	238	238	103	0	0	0	0	
1,425	1,450	156	21	0	0	3,200	3,250	525	521	383	383	383	248	248	248	113	0	0	0	0	
1,450	1,475	161	26	0	0	3,250	3,300	536	532	393	393	393	258	258	258	123	0	0	0	0	
1,475	1,500	166	31	0	0	3,300	3,350	547	543	403	403	403	268	268	268	133	0	0	0	0	
1,500	1,525	171	36	0	0	3,350	3,400	558	553	413	413	413	278	278	278	143	8	0	0	0	
1,525	1,550	176	41	0	0	3,400	3,450	569	564	424	424	424	289	289	289	154	19	0	0	0	
1,550	1,575	181	46	0	0	3,450	3,500	581	575	434	434	434	299	299	299	164	29	0	0	0	
1,575	1,600	186	51	0	0	3,500	3,550	592	585	444	444	444	309	309	309	174	39	0	0	0	
1,600	1,625	192	57	0	0	3,550	3,600	603	596	454	454	454	319	319	319	184	49	0	0	0	
1,625	1,650	197	62	0	0	3,600	3,650	614	607	465	465	464	329	329	329	194	59	0	0	0	
1,650	1,675	202	67	0	0	3,650	3,700	625	617	477	475	474	339	339	339	204	69	0	0	0	
1,675	1,700	207	72	0	0	3,700	3,750	636	628	488	486	484	349	349	349	214	79	0	0	0	
1,700	1,725	212	77	0	0	3,750	3,800	647	638	499	497	494	359	359	359	224	89	0	0	0	
1,725	1,750	217	82	0	0	3,800	3,850	659	649	510	507	505	370	370	370	235	100	0	0	0	
1,750	1,775	222	87	0	0	3,850	3,900	670	660	521	518	515	380	380	380	245	110	0	0	0	
1,775	1,800	227	92	0	0	3,900	3,950	681	670	532	529	525	390	390	390	255	120	0	0	0	
1,800	1,825	232	97	0	0	3,950	4,000	692	681	543	539	535	400	400	400	265	130	0	0	0	
1,825	1,850	237	102	0	0	4,000	4,050	703	692	555	550	545	410	410	410	275	140	5	0	0	
1,850	1,875	242	107	0	0	4,050	4,100	714	702	566	560	555	420	420	420	285	150	15	0	0	
1,875	1,900	247	112	0	0	4,100	4,150	725	713	577	571	565	430	430	430	295	160	25	0	0	
1,900	1,925	252	117	0	0	4,150	4,200	736	723	588	582	575	440	440	440	305	170	35	0	0	
1,925	1,950	257	122	0	0	4,200	4,250	748	734	599	592	586	451	451	451	316	181	46	0	0	
1,950	1,975	262	127	0	0	4,250	4,300	759	745	610	603	596	462	461	461	326	191	56	0	0	
1,975	2,000	267	132	0	0	4,300	4,350	770	755	621	614	606	473	472	471	336	201	66	0	0	
2,000	2,025	273	138	3	0	4,350	4,400	781	766	633	624	616	484	482	481	346	211	76	0	0	
2,025	2,050	278	143	8	0	4,400	4,450	792	777	644	635	626	495	493	491	356	221	86	0	0	
2,050	2,075	283	148	13	0	4,450	4,500	803	787	655	645	636	506	504	501	366	231	96	0	0	
2,075	2,100	288	153	18	0	4,500	4,550	814	798	666	656	646	517	514	511	376	241	106	0	0	
2,100	2,125	293	158	23	0	4,550	4,600	826	809	677	667	656	529	525	521	386	251	116	0	0	
2,125	2,150	298	163	28	0	4,600	4,650	837	819	688	677	667	540	536	532	397	262	127	0	0	
2,150	2,175	303	168	33	0	4,650	4,700	848	830	699	688	677	551	546	542	407	272	137	2	0	
2,175	2,200	308	173	38	0	4,700	4,750	859	840	710	699	687	562	557	552	417	282	147	12	0	
2,200	2,225	313	178	43	0	4,750	4,800	870	851	722	709	697	573	568	562	427	292	157	22	0	
2,225	2,250	318	183	48	0	4,800	4,850	881	862	733	720	707	584	578	572	437					

1 **SEC. 103. COMPUTATION OF TAX IN CASE OF CERTAIN**
2 **JOINT RETURNS.**

3 If a joint return of a husband and wife is filed under
4 the provisions of section 51 (b) (3) of the Internal Revenue
5 Code in a case where the husband and wife have different
6 taxable years because of the death of either spouse, and the
7 taxable year of the surviving spouse covered by such joint
8 return began before September 1, 1951, and ended after
9 August 31, 1951, the amendments made by this part shall
10 be applicable in respect of such joint return as if the tax-
11 able years of both spouses covered by the joint return
12 ended on the date of the closing of the surviving spouse's
13 taxable year.

14 **SEC. 104. EFFECTIVE DATE OF PART I.**

15 Except as provided in section 103, the amendments
16 made by this part shall be applicable only with respect to
17 taxable years ending after August 31, 1951. For treat-
18 ment of taxable years (other than the calendar year 1951)
19 beginning before September 1, 1951, and ending after
20 August 31, 1951, see section 131.

1 SEC. 101. INCREASE IN SURTAX FOR 1951, 1952, AND 1953.

2 (a) Rates of Surtax.—Section 12 (b) (relating to rates
3 of surtax) is hereby amended to read as follows:

4 “(b) RATES OF SURTAX.—

5 “(1) CALENDAR YEAR 1951.—In the case of a tax-
6 able year beginning on January 1, 1951, and ending on
7 December 31, 1951, there shall be levied, collected, and
8 paid for such taxable year upon the surtax net income of
9 every individual the surtax shown in the following table:

<i>If the surtax net income is:</i>	<i>The surtax shall be:</i>
<i>Not over \$2,000-----</i>	<i>17.4% of the surtax net income.</i>
<i>Over \$2,000 but not over \$4,000---</i>	<i>\$348, plus 19.4% of excess over \$2,000.</i>
<i>Over \$4,000 but not over \$6,000---</i>	<i>\$736, plus 23% of excess over \$4,000.</i>
<i>Over \$6,000 but not over \$8,000---</i>	<i>\$1,196, plus 28% of excess over \$6,000.</i>
<i>Over \$8,000 but not over \$10,000--</i>	<i>\$1,756, plus 32% of excess over \$8,000.</i>
<i>Over \$10,000 but not over \$12,000-</i>	<i>\$2,396, plus 35% of excess over \$10,000.</i>
<i>Over \$12,000 but not over \$14,000-</i>	<i>\$3,096, plus 41% of excess over \$12,000.</i>
<i>Over \$14,000 but not over \$16,000-</i>	<i>\$3,916, plus 45% of excess over \$14,000.</i>
<i>Over \$16,000 but not over \$18,000-</i>	<i>\$4,816, plus 48% of excess over \$16,000.</i>
<i>Over \$18,000 but not over \$20,000-</i>	<i>\$5,776, plus 51% of excess over \$18,000.</i>
<i>Over \$20,000 but not over \$22,000-</i>	<i>\$6,796, plus 54% of excess over \$20,000.</i>
<i>Over \$22,000 but not over \$26,000-</i>	<i>\$7,876, plus 57% of excess over \$22,000.</i>

<i>"If the surtax net income is:</i>	<i>The surtax shall be:</i>
<i>Over \$26,000 but not over \$32,000—</i>	<i>\$10,156, plus 60% of excess over \$26,000.</i>
<i>Over \$32,000 but not over \$38,000—</i>	<i>\$13,756, plus 62% of excess over \$32,000.</i>
<i>Over \$38,000 but not over \$44,000—</i>	<i>\$17,476, plus 67% of excess over \$38,000.</i>
<i>Over \$44,000 but not over \$50,000—</i>	<i>\$21,496, plus 69% of excess over \$44,000.</i>
<i>Over \$50,000 but not over \$60,000—</i>	<i>\$25,636, plus 72% of excess over \$50,000.</i>
<i>Over \$60,000 but not over \$70,000—</i>	<i>\$32,836, plus 76% of excess over \$60,000.</i>
<i>Over \$70,000 but not over \$80,000—</i>	<i>\$40,436, plus 78% of excess over \$70,000.</i>
<i>Over \$80,000 but not over \$90,000—</i>	<i>\$48,236, plus 81% of excess over \$80,000.</i>
<i>Over \$90,000 but not over \$100,000—</i>	<i>\$56,336, plus 84% of excess over \$90,000.</i>
<i>Over \$100,000 but not over \$150,000—</i>	<i>\$64,736, plus 86% of excess over \$100,000.</i>
<i>Over \$150,000 but not over \$200,000—</i>	<i>\$107,736, plus 87% of excess over \$150,000.</i>
<i>Over \$200,000-----</i>	<i>\$151,236, plus 88.1% of excess over \$200,000.</i>

1 ***"(2) TAXABLE YEARS BEGINNING AFTER OCTOBER***
2 ***31, 1951, AND BEFORE JANUARY 1, 1954.—In the case of***
3 ***taxable years beginning after October 31, 1951, and***
4 ***before January 1, 1954, there shall be levied, collected,***
5 ***and paid for each taxable year upon the surtax net in-***
6 ***come of every individual (other than a head of a house-***
7 ***hold to whom subsection (c) applies) the surtax shown in***
8 ***the following table:***

<i>"If the surtax net income is:</i>	<i>The surtax shall be:</i>
<i>Not over \$2,000-----</i>	<i>19.2% of the surtax net income.</i>
<i>Over \$2,000 but not over \$4,000---</i>	<i>\$384, plus 21.4% of excess over \$2,000.</i>
<i>Over \$4,000 but not over \$6,000---</i>	<i>\$812, plus 26% of excess over \$4,000.</i>
<i>Over \$6,000 but not over \$8,000---</i>	<i>\$1,332, plus 30% of excess over \$6,000.</i>
<i>Over \$8,000 but not over \$10,000--</i>	<i>\$1,932, plus 35% of excess over \$8,000.</i>
<i>Over \$10,000 but not over \$12,000-</i>	<i>\$2,632, plus 39% of excess over \$10,000.</i>
<i>Over \$12,000 but not over \$14,000-</i>	<i>\$3,412, plus 45% of excess over \$12,000.</i>

"If the surtax net income is: The surtax shall be:

<i>Over \$14,000 but not over \$16,000—</i>	<i>\$4,312, plus 49% of excess over \$14,000.</i>
<i>Over \$16,000 but not over \$18,000—</i>	<i>\$5,292, plus 53% of excess over \$16,000.</i>
<i>Over \$18,000 but not over \$20,000—</i>	<i>\$6,352, plus 56% of excess over \$18,000.</i>
<i>Over \$20,000 but not over \$22,000—</i>	<i>\$7,472, plus 59% of excess over \$20,000.</i>
<i>Over \$22,000 but not over \$28,000—</i>	<i>\$8,652, plus 62% of excess over \$22,000.</i>
<i>Over \$28,000 but not over \$34,000—</i>	<i>\$12,372, plus 64% of excess over \$28,000.</i>
<i>Over \$34,000 but not over \$40,000—</i>	<i>\$16,212, plus 66% of excess over \$34,000.</i>
<i>Over \$40,000 but not over \$50,000—</i>	<i>\$20,172, plus 70% of excess over \$40,000.</i>
<i>Over \$50,000 but not over \$60,000—</i>	<i>\$27,172, plus 74% of excess over \$50,000.</i>
<i>Over \$60,000 but not over \$70,000—</i>	<i>\$34,572, plus 77% of excess over \$60,000.</i>
<i>Over \$70,000 but not over \$80,000—</i>	<i>\$42,272, plus 79% of excess over \$70,000.</i>
<i>Over \$80,000 but not over \$90,000—</i>	<i>\$50,172, plus 82% of excess over \$80,000.</i>
<i>Over \$90,000 but not over \$100,000—</i>	<i>\$58,372, plus 85% of excess over \$90,000.</i>
<i>Over \$100,000 but not over \$150,000.</i>	<i>\$66,872, plus 87% of excess over \$100,000.</i>
<i>Over \$150,000 but not over \$200,000.</i>	<i>\$110,372, plus 88% of excess over \$150,000.</i>
<i>Over \$200,000-----</i>	<i>\$154,372, plus 88.7% of excess over \$200,000.</i>

1 ***"(3) TAXABLE YEARS BEGINNING AFTER DECEM-***
2 *BER 31, 1953.—In the case of taxable years beginning*
3 *after December 31, 1953, there shall be levied, collected,*
4 *and paid for each taxable year upon the surtax net in-*
5 *come of every individual (other than a head of a house-*
6 *hold to whom subsection (c) applies) the surtax shown in*
7 *the following table:*

"If the surtax net income is: The surtax shall be:

<i>Not over \$2,000-----</i>	<i>17% of the surtax net income.</i>
<i>Over \$2,000 but not over \$4,000---</i>	<i>\$340, plus 19% of excess over \$2,000.</i>
<i>Over \$4,000 but not over \$6,000---</i>	<i>\$720, plus 23% of excess over \$4,000.</i>

<i>"If the surtax net income is:</i>	<i>The surtax shall be:</i>
<i>Over \$6,000 but not over \$8,000---</i>	<i>\$1,180, plus 27% of excess over \$6,000.</i>
<i>Over \$8,000 but not over \$10,000--</i>	<i>\$1,720, plus 31% of excess over \$8,000.</i>
<i>Over \$10,000 but not over \$12,000-</i>	<i>\$2,340, plus 35% of excess over \$10,000.</i>
<i>Over \$12,000 but not over \$14,000-</i>	<i>\$3,040, plus 40% of excess over \$12,000.</i>
<i>Over \$14,000 but not over \$16,000-</i>	<i>\$3,840, plus 44% of excess over \$14,000.</i>
<i>Over \$16,000 but not over \$18,000-</i>	<i>\$4,720, plus 47% of excess over \$16,000.</i>
<i>Over \$18,000 but not over \$20,000-</i>	<i>\$5,660, plus 50% of excess over \$18,000.</i>
<i>Over \$20,000 but not over \$22,000-</i>	<i>\$6,660, plus 53% of excess over \$20,000.</i>
<i>Over \$22,000 but not over \$26,000-</i>	<i>\$7,720, plus 56% of excess over \$22,000.</i>
<i>Over \$26,000 but not over \$32,000-</i>	<i>\$9,960, plus 59% of excess over \$26,000.</i>
<i>Over \$32,000 but not over \$38,000-</i>	<i>\$13,500, plus 62% of excess over \$32,000.</i>
<i>Over \$38,000 but not over \$44,000-</i>	<i>\$17,220, plus 66% of excess over \$38,000.</i>
<i>Over \$44,000 but not over \$50,000-</i>	<i>\$21,180, plus 69% of excess over \$44,000.</i>
<i>Over \$50,000 but not over \$60,000-</i>	<i>\$25,320, plus 72% of excess over \$50,000.</i>
<i>Over \$60,000 but not over \$70,000-</i>	<i>\$32,520, plus 75% of excess over \$60,000.</i>
<i>Over \$70,000 but not over \$80,000-</i>	<i>\$40,020, plus 78% of excess over \$70,000.</i>
<i>Over \$80,000 but not over \$90,000-</i>	<i>\$47,820, plus 81% of excess over \$80,000.</i>
<i>Over \$90,000 but not over \$100,000-</i>	<i>\$55,920, plus 84% of excess over \$90,000.</i>
<i>Over \$100,000 but not over \$150,000.</i>	<i>\$64,320, plus 86% of excess over \$100,000.</i>
<i>Over \$150,000 but not over \$200,000.</i>	<i>\$107,320, plus 87% of excess over \$150,000.</i>
<i>Over \$200,000-----</i>	<i>\$150,820, plus 88% of excess over \$200,000."</i>

1 (b) *Limitation On Tax.*—Section 12 (f) (relating to
2 *limitation on tax*) is hereby amended to read as follows:

3 “(f) *LIMITATION ON TAX.*—

4 “(1) *CALENDAR YEAR 1951.*—In the case of a tax-

1 *able year beginning on January 1, 1951, and ending*
2 *December 31, 1951, the combined normal tax and sur-*
3 *tax shall in no event exceed 87.2 per centum of the net*
4 *income for the taxable year.*

5 “(2) *TAXABLE YEARS BEGINNING AFTER OCTO-*
6 *BER 31, 1951, AND BEFORE JANUARY 1, 1954.—In the*
7 *case of taxable years beginning after October 31, 1951,*
8 *and before January 1, 1954, the combined normal tax*
9 *and surtax shall in no event exceed 88 per centum of*
10 *the net income of the taxable year.*

11 “(3) *TAXABLE YEARS BEGINNING AFTER DECEM-*
12 *BER 31, 1953.—In the case of taxable years beginning*
13 *after December 31, 1953, the combined normal tax and*
14 *surtax shall in no event exceed 87 per centum of the*
15 *net income for the taxable year.”*

16 SEC. 102. *INDIVIDUALS WITH ADJUSTED GROSS INCOME OF LESS*
17 *THAN \$5,000.*

18 *Section 400 (relating to optional tax on individuals*
19 *with adjusted gross incomes of less than \$5,000) is hereby*
20 *amended by striking out the tables contained therein and*
21 *inserting in lieu thereof the following:*

“Table 1

“Taxable year beginning January 1, 1951, and ending
December 31, 1951

If adjusted gross income is—		And the number of exemptions is—				If adjusted gross income is—		And the number of exemptions is—									
At least	But less than	1	2	3	4 or more	At least	But less than	1	2		3		4	5	6	7	8 or more
									And tax-payer is single or married filing separately	And a joint re-turn is filed	And tax-payer is single or married filing separately	And a joint re-turn is filed					
The tax shall be—						The tax shall be—											
\$0	\$675	\$0	\$0	\$0	\$0	\$2,325	\$2,350	\$307	\$184	\$184	\$62	\$62	\$0	\$0	\$0	\$0	\$0
675	700	4	0	0	0	2,350	2,375	311	189	189	67	67	0	0	0	0	0
700	725	8	0	0	0	2,375	2,400	316	194	194	71	71	0	0	0	0	0
725	750	12	0	0	0	2,400	2,425	321	198	198	76	76	0	0	0	0	0
750	775	16	0	0	0	2,425	2,450	325	203	203	80	80	0	0	0	0	0
775	800	20	0	0	0	2,450	2,475	330	207	207	85	85	0	0	0	0	0
800	825	24	0	0	0	2,475	2,500	334	212	212	90	90	0	0	0	0	0
825	850	28	0	0	0	2,500	2,525	339	216	216	94	94	0	0	0	0	0
850	875	32	0	0	0	2,525	2,550	343	221	221	99	99	0	0	0	0	0
875	900	36	0	0	0	2,550	2,575	348	226	226	103	103	0	0	0	0	0
900	925	40	0	0	0	2,575	2,600	353	230	230	108	108	0	0	0	0	0
925	950	44	0	0	0	2,600	2,625	357	235	235	112	112	0	0	0	0	0
950	975	48	0	0	0	2,625	2,650	362	239	239	117	117	0	0	0	0	0
975	1,000	52	0	0	0	2,650	2,675	366	244	244	122	122	0	0	0	0	0
1,000	1,025	56	0	0	0	2,675	2,700	371	249	249	126	126	4	0	0	0	0
1,025	1,050	60	0	0	0	2,700	2,725	376	253	253	131	131	8	0	0	0	0
1,050	1,075	64	0	0	0	2,725	2,750	380	258	258	135	135	12	0	0	0	0
1,075	1,100	68	0	0	0	2,750	2,775	385	262	262	140	140	16	0	0	0	0
1,100	1,125	72	0	0	0	2,775	2,800	389	267	267	145	145	20	0	0	0	0
1,125	1,150	76	0	0	0	2,800	2,825	394	272	272	149	149	24	0	0	0	0
1,150	1,175	80	0	0	0	2,825	2,850	399	276	276	154	154	28	0	0	0	0
1,175	1,200	84	0	0	0	2,850	2,875	403	281	281	158	158	32	0	0	0	0
1,200	1,225	88	0	0	0	2,875	2,900	408	285	285	163	163	36	0	0	0	0
1,225	1,250	92	0	0	0	2,900	2,925	413	290	290	168	168	40	0	0	0	0
1,250	1,275	96	0	0	0	2,925	2,950	418	295	295	172	172	44	0	0	0	0
1,275	1,300	100	0	0	0	2,950	2,975	423	299	299	177	177	48	0	0	0	0
1,300	1,325	104	0	0	0	2,975	3,000	428	304	304	181	181	52	0	0	0	0
1,325	1,350	123	1	0	0	3,000	3,050	435	311	311	188	188	66	0	0	0	0
1,350	1,375	128	5	0	0	3,050	3,100	446	320	320	197	197	75	0	0	0	0
1,375	1,400	132	10	0	0	3,100	3,150	456	329	329	207	207	84	0	0	0	0
1,400	1,425	137	15	0	0	3,150	3,200	466	338	338	216	216	93	0	0	0	0
1,425	1,450	142	19	0	0	3,200	3,250	476	347	347	225	225	103	0	0	0	0
1,450	1,475	146	24	0	0	3,250	3,300	486	356	356	234	234	112	0	0	0	0
1,475	1,500	160	151	28	0	3,300	3,350	496	366	366	243	243	121	0	0	0	0
1,500	1,525	155	33	0	0	3,350	3,400	506	375	375	252	252	130	8	0	0	0
1,525	1,550	160	37	0	0	3,400	3,450	516	384	384	262	262	139	17	0	0	0
1,550	1,575	164	42	0	0	3,450	3,500	526	393	393	271	271	148	26	0	0	0
1,575	1,600	169	47	0	0	3,500	3,550	536	402	402	280	280	158	35	0	0	0
1,600	1,625	174	51	0	0	3,550	3,600	546	412	412	289	289	167	44	0	0	0
1,625	1,650	178	56	0	0	3,600	3,650	556	422	421	298	298	176	54	0	0	0
1,650	1,675	183	60	0	0	3,650	3,700	566	432	430	308	308	185	63	0	0	0
1,675	1,700	187	65	0	0	3,700	3,750	577	442	439	317	317	194	72	0	0	0
1,700	1,725	192	70	0	0	3,750	3,800	587	452	448	326	326	203	81	0	0	0
1,725	1,750	197	74	0	0	3,800	3,850	597	462	457	335	335	213	90	0	0	0
1,750	1,775	201	79	0	0	3,850	3,900	607	472	467	344	344	222	99	0	0	0
1,775	1,800	206	83	0	0	3,900	3,950	617	482	476	353	353	231	109	0	0	0
1,800	1,825	210	88	0	0	3,950	4,000	627	493	485	363	363	240	118	0	0	0
1,825	1,850	215	93	0	0	4,000	4,050	637	503	494	372	372	249	127	5	0	0
1,850	1,875	220	97	0	0	4,050	4,100	647	513	503	381	381	259	136	14	0	0
1,875	1,900	224	102	0	0	4,100	4,150	657	523	513	390	390	268	145	23	0	0
1,900	1,925	229	106	0	0	4,150	4,200	667	533	522	399	399	277	155	32	0	0
1,925	1,950	233	111	0	0	4,200	4,250	677	543	531	409	409	286	164	41	0	0
1,950	1,975	238	116	0	0	4,250	4,300	687	553	540	419	419	295	173	50	0	0
1,975	2,000	243	120	0	0	4,300	4,350	698	563	549	429	429	304	182	60	0	0
2,000	2,025	247	125	2	0	4,350	4,400	708	573	558	439	439	314	191	69	0	0
2,025	2,050	252	129	7	0	4,400	4,450	718	583	568	449	449	323	200	78	0	0
2,050	2,075	256	134	11	0	4,450	4,500	728	593	577	459	459	332	210	87	0	0
2,075	2,100	261	138	16	0	4,500	4,550	738	603	586	469	469	341	219	96	0	0
2,100	2,125	265	143	21	0	4,550	4,600	748	614	595	479	479	350	228	106	0	0
2,125	2,150	270	148	25	0	4,600	4,650	758	624	604	489	489	360	237	115	0	0
2,150	2,175	275	152	30	0	4,650	4,700	768	634	614	499	499	369	246	124	2	0
2,175	2,200	279	157	34	0	4,700	4,750	778	644	623	509	509	378	256	133	11	0
2,200	2,225	284	161	39	0	4,750	4,800	788	654	632	519	509	387	265	142	20	0
2,225	2,250	288	166	44	0	4,800	4,850	798	664	641	530	519	396	274	151	29	0
2,250	2,275	293	171	48	0	4,850	4,900	808	674	650	540	528	405	283	161	38	0
2,275	2,300	298	175	53	0	4,900	4,950	818	684	659	550	537	415	292	170	47	0
2,300	2,325	302	180	57	0	4,950	5,000	829	694	669	560	546	424	301	179	57	0

"Table II

"Taxable years beginning after October 31, 1951, and before January 1, 1954

If adjusted gross income is—		And the number of exemptions is—				If adjusted gross income is—		And the number of exemptions is—												
At least	But less than	1	2	3	4 or more	At least	But less than	1		2			3			4	5	6	7	8 or more
								And tax-payer is single or married filing separately	And tax-payer is head of household	And tax-payer is single or married filing separately	And tax-payer is head of household	And a joint return is filed	And tax-payer is single or married filing separately	And tax-payer is head of household	And a joint return is filed					
The tax shall be—								The tax shall be—												
\$0	\$675	\$0	\$0	\$0	\$0	\$2,325	\$2,350	\$334	\$334	\$201	\$201	\$201	\$67	\$67	\$67	\$0	\$0	\$0	\$0	
675	700	4	0	0	0	2,350	2,375	339	339	206	206	206	72	72	72	0	0	0	0	
700	725	9	0	0	0	2,375	2,400	344	344	211	211	211	77	77	77	0	0	0	0	
725	750	14	0	0	0	2,400	2,425	349	349	216	216	216	82	82	82	0	0	0	0	
750	775	19	0	0	0	2,425	2,450	354	354	221	221	221	87	87	87	0	0	0	0	
775	800	24	0	0	0	2,450	2,475	359	359	226	226	226	92	92	92	0	0	0	0	
800	825	29	0	0	0	2,475	2,500	364	364	231	231	231	97	97	97	0	0	0	0	
825	850	34	0	0	0	2,500	2,525	369	369	236	236	236	102	102	102	0	0	0	0	
850	875	39	0	0	0	2,525	2,550	374	374	241	241	241	107	107	107	0	0	0	0	
875	900	44	0	0	0	2,550	2,575	379	379	246	246	246	112	112	112	0	0	0	0	
900	925	49	0	0	0	2,575	2,600	384	384	251	251	251	117	117	117	0	0	0	0	
925	950	54	0	0	0	2,600	2,625	389	389	256	256	256	122	122	122	0	0	0	0	
950	975	59	0	0	0	2,625	2,650	394	394	261	261	261	127	127	127	0	0	0	0	
975	1,000	64	0	0	0	2,650	2,675	399	399	266	266	266	132	132	132	0	0	0	0	
1,000	1,025	69	0	0	0	2,675	2,700	404	404	271	271	271	137	137	137	4	0	0	0	
1,025	1,050	74	0	0	0	2,700	2,725	409	409	276	276	276	142	142	142	9	0	0	0	
1,050	1,075	79	0	0	0	2,725	2,750	414	414	281	281	281	147	147	147	14	0	0	0	
1,075	1,100	84	0	0	0	2,750	2,775	419	419	286	286	286	152	152	152	19	0	0	0	
1,100	1,125	89	0	0	0	2,775	2,800	424	424	291	291	291	157	157	157	24	0	0	0	
1,125	1,150	94	0	0	0	2,800	2,825	429	429	296	296	296	162	162	162	29	0	0	0	
1,150	1,175	99	0	0	0	2,825	2,850	434	434	301	301	301	167	167	167	34	0	0	0	
1,175	1,200	104	0	0	0	2,850	2,875	439	439	306	306	306	172	172	172	39	0	0	0	
1,200	1,225	109	0	0	0	2,875	2,900	444	444	311	311	311	177	177	177	44	0	0	0	
1,225	1,250	114	0	0	0	2,900	2,925	449	449	316	316	316	182	182	182	49	0	0	0	
1,250	1,275	119	0	0	0	2,925	2,950	455	454	321	321	321	187	187	187	54	0	0	0	
1,275	1,300	124	0	0	0	2,950	2,975	460	460	326	326	326	192	192	192	59	0	0	0	
1,300	1,325	129	0	0	0	2,975	3,000	466	465	331	331	331	197	197	197	64	0	0	0	
1,325	1,350	134	1	0	0	3,000	3,050	474	473	338	338	338	205	205	205	72	0	0	0	
1,350	1,375	139	6	0	0	3,050	3,100	485	484	348	348	348	215	215	215	82	0	0	0	
1,375	1,400	144	11	0	0	3,100	3,150	496	495	358	358	358	225	225	225	92	0	0	0	
1,400	1,425	149	16	0	0	3,150	3,200	507	505	368	368	368	235	235	235	102	0	0	0	
1,425	1,450	154	21	0	0	3,200	3,250	518	515	378	378	378	245	245	245	112	0	0	0	
1,450	1,475	159	26	0	0	3,250	3,300	529	527	388	388	388	255	255	255	122	0	0	0	
1,475	1,500	164	31	0	0	3,300	3,350	540	537	398	398	398	265	265	265	132	0	0	0	
1,500	1,525	169	36	0	0	3,350	3,400	551	548	408	408	408	275	275	275	142	8	0	0	
1,525	1,550	174	41	0	0	3,400	3,450	562	559	418	418	418	285	285	285	152	18	0	0	
1,550	1,575	179	46	0	0	3,450	3,500	573	570	428	428	428	295	295	295	162	28	0	0	
1,575	1,600	184	51	0	0	3,500	3,550	584	580	438	438	438	305	305	305	171	38	0	0	
1,600	1,625	189	56	0	0	3,550	3,600	595	591	448	448	448	315	315	315	181	48	0	0	
1,625	1,650	194	61	0	0	3,600	3,650	606	602	459	459	458	325	325	325	191	58	0	0	
1,650	1,675	199	66	0	0	3,650	3,700	617	612	470	470	468	335	335	335	201	68	0	0	
1,675	1,700	204	71	0	0	3,700	3,750	628	623	480	480	478	345	345	345	211	78	0	0	
1,700	1,725	209	76	0	0	3,750	3,800	639	634	492	491	488	355	355	355	221	88	0	0	
1,725	1,750	214	81	0	0	3,800	3,850	650	645	503	502	498	365	365	365	231	98	0	0	
1,750	1,775	219	86	0	0	3,850	3,900	661	655	514	512	508	375	375	375	241	108	0	0	
1,775	1,800	224	91	0	0	3,900	3,950	672	666	525	523	518	385	385	385	251	118	0	0	
1,800	1,825	229	96	0	0	3,950	4,000	683	677	536	534	528	395	395	395	261	128	0	0	
1,825	1,850	234	101	0	0	4,000	4,050	693	687	547	545	538	405	405	405	271	138	5	0	
1,850	1,875	239	106	0	0	4,050	4,100	704	698	558	555	548	415	415	415	281	148	15	0	
1,875	1,900	244	111	0	0	4,100	4,150	715	709	569	566	558	425	425	425	291	158	25	0	
1,900	1,925	249	116	0	0	4,150	4,200	726	719	580	577	568	435	435	435	301	168	35	0	
1,925	1,950	254	121	0	0	4,200	4,250	737	730	591	587	578	445	445	445	311	178	45	0	
1,950	1,975	259	126	0	0	4,250	4,300	748	741	602	598	588	456	456	456	321	188	55	0	
1,975	2,000	264	131	0	0	4,300	4,350	759	752	613	609	598	467	466	466	331	198	65	0	
2,000	2,025	269	136	2	0	4,350	4,400	770	762	624	620	608	478	477	477	341	208	75	0	
2,025	2,050	274	141	7	0	4,400	4,450	781	773	635	630	618	489	487	487	351	218	85	0	
2,050	2,075	279	146	12	0	4,450	4,500	792	784	646	641	628	500	498	498	361	228	95	0	
2,075	2,100	284	151	17	0	4,500	4,550	803	794	657	652	638	510	509	509	371	238	105	0	
2,100	2,125	289	156	22	0	4,550	4,600	814	805	668	662	648	521	520	520	381	248	115	0	
2,125	2,150	294	161	27	0	4,600	4,650	825	816	679	673	658	532	530	530	391	258	125	0	
2,150	2,175	299	166	32	0	4,650	4,700	836	827	690	684	668	543	541	541	401	268	135	2	
2,175	2,200	304	171	37	0	4,700	4,750	847	837	701	694	678	554	552	552	411	278	145	12	
2,200	2,225	309	176	42	0	4,750	4,800	858	848	712	705	688	565	562	562	421	288	155	22	
2,225	2,250	314	181	47	0	4,800	4,850	869	859	723	716	698	576	573	573	431	298	165	32	
2,250	2,275	319	186	52	0	4,850	4,900	880	869	734	727	708	587	584	584	441	308	175	42	
2,275	2,300	324	191	57	0	4,900	4,950	891	880	745	737	718	598	595	595	451	318	185	52	
2,300	2,325	329	196	62	0	4,950	5,000	902	891	756	748	728	609	606	606	461	328	195	62	

"Table III

"Taxable years beginning after December 31, 1953

If adjusted gross income is—		And the number of exemptions is—				If adjusted gross income is—		And the number of exemptions is—													
At least	But less than	1	2	3	4 or more	At least	But less than	1		2			3				4	5	6	7	8 or more
								And tax-payer is single or married filing separately	And tax-payer is head of household	And tax-payer is single or married filing separately	And tax-payer is head of household	And a joint return is filed	And tax-payer is single or married filing separately	And tax-payer is head of household	And a joint return is filed						
																The tax shall be—					
\$0	\$675	\$0	\$0	\$0	\$0	\$2,325	\$2,350	\$301	\$301	\$181	\$181	\$181	\$61	\$61	\$61	\$0	\$0	\$0	\$0	\$0	
675	700	4	0	0	0	2,350	2,375	305	305	185	185	185	65	65	65	0	0	0	0	0	
700	725	8	0	0	0	2,375	2,400	310	310	190	190	190	70	70	70	0	0	0	0	0	
725	750	13	0	0	0	2,400	2,425	314	314	194	194	194	74	74	74	0	0	0	0	0	
750	775	17	0	0	0	2,425	2,450	319	319	199	199	199	79	79	79	0	0	0	0	0	
775	800	22	0	0	0	2,450	2,475	323	323	203	203	203	83	83	83	0	0	0	0	0	
800	825	26	0	0	0	2,475	2,500	328	328	208	208	208	88	88	88	0	0	0	0	0	
825	850	31	0	0	0	2,500	2,525	332	332	212	212	212	92	92	92	0	0	0	0	0	
850	875	35	0	0	0	2,525	2,550	337	337	217	217	217	97	97	97	0	0	0	0	0	
875	900	40	0	0	0	2,550	2,575	341	341	221	221	221	101	101	101	0	0	0	0	0	
900	925	44	0	0	0	2,575	2,600	346	346	226	226	226	106	106	106	0	0	0	0	0	
925	950	49	0	0	0	2,600	2,625	350	350	230	230	230	110	110	110	0	0	0	0	0	
950	975	53	0	0	0	2,625	2,650	355	355	235	235	235	115	115	115	0	0	0	0	0	
975	1,000	58	0	0	0	2,650	2,675	359	359	239	239	239	119	119	119	0	0	0	0	0	
1,000	1,025	62	0	0	0	2,675	2,700	364	364	244	244	244	124	124	124	4	0	0	0	0	
1,025	1,050	67	0	0	0	2,700	2,725	368	368	248	248	248	128	128	128	8	0	0	0	0	
1,050	1,075	71	0	0	0	2,725	2,750	373	373	253	253	253	133	133	133	13	0	0	0	0	
1,075	1,100	76	0	0	0	2,750	2,775	377	377	257	257	257	137	137	137	17	0	0	0	0	
1,100	1,125	80	0	0	0	2,775	2,800	382	382	262	262	262	142	142	142	22	0	0	0	0	
1,125	1,150	85	0	0	0	2,800	2,825	386	386	266	266	266	146	146	146	26	0	0	0	0	
1,150	1,175	89	0	0	0	2,825	2,850	391	391	271	271	271	151	151	151	31	0	0	0	0	
1,175	1,200	94	0	0	0	2,850	2,875	395	395	275	275	275	155	155	155	35	0	0	0	0	
1,200	1,225	98	0	0	0	2,875	2,900	400	400	280	280	280	160	160	160	40	0	0	0	0	
1,225	1,250	103	0	0	0	2,900	2,925	405	405	284	284	284	164	164	164	44	0	0	0	0	
1,250	1,275	107	0	0	0	2,925	2,950	410	409	289	289	289	169	169	169	49	0	0	0	0	
1,275	1,300	112	0	0	0	2,950	2,975	415	414	293	293	293	173	173	173	53	0	0	0	0	
1,300	1,325	116	0	0	0	2,975	3,000	420	419	298	298	298	178	178	178	58	0	0	0	0	
1,325	1,350	121	1	0	0	3,000	3,050	427	426	305	305	305	185	185	185	65	0	0	0	0	
1,350	1,375	125	5	0	0	3,050	3,100	437	436	314	314	314	194	194	194	74	0	0	0	0	
1,375	1,400	130	10	0	0	3,100	3,150	447	446	323	323	323	203	203	203	83	0	0	0	0	
1,400	1,425	134	14	0	0	3,150	3,200	457	456	332	332	332	212	212	212	92	0	0	0	0	
1,425	1,450	139	19	0	0	3,200	3,250	467	465	341	341	341	221	221	221	101	0	0	0	0	
1,450	1,475	143	23	0	0	3,250	3,300	476	475	350	350	350	230	230	230	110	0	0	0	0	
1,475	1,500	148	28	0	0	3,300	3,350	486	484	359	359	359	239	239	239	119	0	0	0	0	
1,500	1,525	152	32	0	0	3,350	3,400	496	494	368	368	368	248	248	248	128	8	0	0	0	
1,525	1,550	157	37	0	0	3,400	3,450	506	504	377	377	377	257	257	257	137	17	0	0	0	
1,550	1,575	161	41	0	0	3,450	3,500	516	513	386	386	386	266	266	266	146	26	0	0	0	
1,575	1,600	166	46	0	0	3,500	3,550	526	523	395	395	395	275	275	275	155	35	0	0	0	
1,600	1,625	170	50	0	0	3,550	3,600	536	533	404	404	404	284	284	284	164	44	0	0	0	
1,625	1,650	175	55	0	0	3,600	3,650	546	542	414	413	413	293	293	293	173	53	0	0	0	
1,650	1,675	179	59	0	0	3,650	3,700	556	552	424	423	422	302	302	302	182	62	0	0	0	
1,675	1,700	184	64	0	0	3,700	3,750	566	562	434	433	431	311	311	311	191	71	0	0	0	
1,700	1,725	188	68	0	0	3,750	3,800	575	571	443	442	440	320	320	320	200	80	0	0	0	
1,725	1,750	193	73	0	0	3,800	3,850	585	581	453	452	449	329	329	329	209	89	0	0	0	
1,750	1,775	197	77	0	0	3,850	3,900	595	591	463	462	458	338	338	338	218	98	0	0	0	
1,775	1,800	202	82	0	0	3,900	3,950	605	600	473	471	467	347	347	347	227	107	0	0	0	
1,800	1,825	206	86	0	0	3,950	4,000	615	610	483	481	476	356	356	356	236	116	0	0	0	
1,825	1,850	211	91	0	0	4,000	4,050	625	620	493	491	485	365	365	365	245	125	5	0	0	
1,850	1,875	215	95	0	0	4,050	4,100	635	630	503	501	494	374	374	374	254	134	14	0	0	
1,875	1,900	220	100	0	0	4,100	4,150	645	639	513	510	503	383	383	383	263	143	23	0	0	
1,900	1,925	224	104	0	0	4,150	4,200	655	649	523	520	512	392	392	392	272	152	32	0	0	
1,925	1,950	229	109	0	0	4,200	4,250	665	659	533	530	521	401	401	401	281	161	41	0	0	
1,950	1,975	233	113	0	0	4,250	4,300	674	668	542	539	530	410	410	410	290	170	50	0	0	
1,975	2,000	238	118	0	0	4,300	4,350	684	678	552	549	539	420	420	420	299	179	59	0	0	
2,000	2,025	242	122	2	0	4,350	4,400	694	688	562	559	548	430	430	430	308	188	68	0	0	
2,025	2,050	247	127	7	0	4,400	4,450	704	697	572	568	557	440	439	439	317	197	77	0	0	
2,050	2,075	251	131	11	0	4,450	4,500	714	707	582	578	566	450	449	449	326	206	86	0	0	
2,075	2,100	256	136	16	0	4,500	4,550	724	717	592	588	575	460	459	459	335	215	95	0	0	
2,100	2,125	260	140	20	0	4,550	4,600	734	726	602	597	584	470	468	468	344	224	104	0	0	
2,125	2,150	265	145	25	0	4,600	4,650	744	736	612	607	593	480	478	478	353	233	113	0	0	
2,150	2,175	269	149	29	0	4,650	4,700	754	746	622	617	602	490	488	488	362	242	122	2	0	
2,175	2,200	274	154	34	0	4,700	4,750	764	755	632	626	611	500	497	497	371	251	131	11	0	
2,200	2,225	278	158	38	0	4,750	4,800	773	765	641	636	620	509	507	507	380	260	140	20	0	
2,225	2,250	283	163	43	0	4,800	4,850	783	775	651	646	629	519	517	517	389	269	149	29	0	

1 SEC. 103. INAPPLICABILITY OF CERTAIN PENALTIES AND AD-
2 DITIONS TO TAX.

3 (a) *PENALTIES FOR FAILURE TO FILE RETURN.*—

4 Section 145 (relating to penalties with respect to failure to
5 file returns, pay tax, etc.) is hereby amended by relettering
6 subsection (f) as subsection (g) and by adding after sub-
7 section (e) a new subsection (f) as follows:

8 “(f) In the case of taxable years beginning prior to
9 November 1, 1951 and ending after October 31, 1951,
10 the penalties prescribed by this section for willful failure to
11 make declarations of, or pay, estimated tax shall not be
12 applicable to a failure to take into account the increase
13 in rates of tax imposed on individuals by the Revenue Act of
14 1951.”

15 (b) *ADDITIONS TO TAX.*—Section 294 (d) (2) (re-
16 lating to additions to tax for substantial under-estimates of
17 estimated tax) is hereby amended by adding at the end thereof
18 a new sentence as follows: “In the case of taxable years be-
19 ginning prior to November 1, 1951, and ending after Octo-
20 ber 31, 1951, the additions to tax prescribed by this subsec-
21 tion shall not be applicable if the taxpayer failed to meet
22 the requirements of this paragraph by reason of the increase

1 *in rates of tax on individuals imposed by the Revenue Act of*
2 *1951.”*

3 **SEC. 104. COMPUTATION OF TAX IN CASE OF CERTAIN JOINT**
4 **RETURNS.**

5 *If a joint return of a husband and wife is filed under*
6 *the provisions of section 51 (b) (3) of the Internal Revenue*
7 *Code in a case where the husband and wife have different*
8 *taxable years because of the death of either spouse, and the*
9 *taxable year of the surviving spouse covered by such joint*
10 *return began before November 1, 1951, and ended after*
11 *October 31, 1951, the amendments made by this part and*
12 *section 131 shall be applicable in respect of such joint return*
13 *as if the taxable years of both spouses covered by the joint*
14 *return ended on the date of the closing of the surviving*
15 *spouse's taxable year.*

16 **SEC. 105. EFFECTIVE DATE OF PART I.**

17 *Except as provided in section 104, the amendments*
18 *made by this part shall be applicable only with respect to*
19 *taxable years beginning after October 31, 1951, and to*
20 *taxable years beginning on January 1, 1951, and ending*
21 *on December 31, 1951. For treatment of taxable years*
22 *(other than the calendar year 1951) beginning before No-*
23 *vember 1, 1951, and ending after October 31, 1951, see*
24 *section 131.*

PART II—CORPORATION INCOME TAXES

**SEC. 121. INCREASE IN RATE OF CORPORATION NORMAL
TAX AND SURTAX.**

(a) ~~AMENDMENT OF SECTION 13~~ *INCREASE IN RATE
OF CORPORATION NORMAL TAX.*—Subsections (a) and
(b) of section 13 (relating to normal tax on corporations)
are hereby amended to read as follows:

“(a) **DEFINITIONS.**—For the purposes of this chapter—

“(1) **ADJUSTED NET INCOME.**—The term ‘adjusted
net income’ means the net income minus the credit pro-
vided in section 26 (a), relating to interest on certain
obligations of the United States and Government
corporations.

“(2) **NORMAL-TAX NET INCOME.**—The term ‘nor-
mal-tax net income’ means the adjusted net income
minus the sum of the following credits:

“(A) The credit for dividends received pro-
vided in section 26 (b) ;

“(B) In the case of a public utility, the credit
for dividends paid on its preferred stock provided
in section 26 (h) ; and

“(C) In the case of a western hemisphere
trade corporation (as defined in section 109), the
credit provided in section 26 (i) .

1 “(b) IMPOSITION OF TAX.—There shall be levied,
 2 collected, and paid for each taxable year upon the normal-
 3 tax net income of every corporation (except a corporation
 4 subject to a tax imposed by section 231 (a), supplement
 5 G, or supplement Q) a tax of 30 per centum of the normal-
 6 tax net income.”

7 “(b) IMPOSITION OF TAX.—There shall be levied, col-
 8 lected, and paid for each taxable year upon the normal-tax
 9 net income of every corporation (except a corporation sub-
 10 ject to a tax imposed by section 231 (a), Supplement G,
 11 or Supplement Q)—

12 “(1) CALENDAR YEAR 1951.—In the case of a
 13 taxable year beginning on January 1, 1951, and ending
 14 on December 31, 1951, a tax of $26\frac{1}{2}$ per centum of the
 15 normal-tax net income.

16 “(2) TAXABLE YEARS BEGINNING AFTER MARCH
 17 31, 1951, AND BEFORE JANUARY 1, 1954.—In the case of
 18 taxable years beginning after March 31, 1951, and
 19 before January 1, 1954, a tax of 27 per centum of the
 20 normal-tax net income.

21 “(3) TAXABLE YEARS BEGINNING AFTER DECEM-
 22 BER 31, 1953.—In the case of taxable years beginning after
 23 December 31, 1953, a tax of 25 per centum of the
 24 normal-tax net income.”

1 *(b) INCREASE IN RATE OF CORPORATION SURTAX.—*

2 *Section 15 (relating to surtax on corporations) is hereby*
 3 *amended to read as follows:*

4 *“SEC. 15. SURTAX ON CORPORATIONS.*

5 *“(a) CORPORATION SURTAX NET INCOME.—For the*
 6 *purposes of this chapter, the term ‘corporation surtax net*
 7 *income’ means the net income minus the sum of the follow-*
 8 *ing credits:*

9 *“(1) The credit for dividends received provided in*
 10 *section 26 (b);*

11 *“(2) In the case of a public utility, the credit for*
 12 *dividends paid on its preferred stock provided in section*
 13 *26(h);*

14 *“(3) In the case of a western hemisphere trade*
 15 *corporation (as defined in section 109), the credit pro-*
 16 *vided in section 26 (i).*

17 *“(b) IMPOSITION OF TAX.—There shall be levied, col-*
 18 *lected, and paid for each taxable year upon the corpora-*
 19 *tion surtax net income of every corporation (except a cor-*
 20 *poration subject to a tax imposed by section 231 (a), Supple-*
 21 *ment G, or Supplement Q)—*

22 *“(1) CALENDAR YEAR 1951.—In the case of a*
 23 *taxable year beginning on January 1, 1951, and end-*
 24 *ing on December 31, 1951, a surtax of 24 $\frac{1}{4}$ per centum*

1 of the amount of the corporation surtax net income in
2 excess of \$25,000.

3 “(2) TAXABLE YEARS BEGINNING AFTER MARCH
4 31, 1951, AND BEFORE JANUARY 1, 1954.—In the case
5 of taxable years beginning after March 31, 1951, and
6 before January 1, 1954, a surtax of 25 per centum of
7 the amount of the corporation surtax net income in
8 excess of \$25,000.

9 “(3) TAXABLE YEARS BEGINNING AFTER DECEM-
10 BER 31, 1953.—In the case of taxable years beginning
11 after December 31, 1953, a surtax of 22 per centum of
12 the amount of the corporation surtax net income in
13 excess of \$25,000.”

14 ~~(b) MAXIMUM TAX.—Section 430 (a) (2) (relating~~
15 ~~to the limitation on the rate of the excess profits tax) is~~
16 ~~hereby amended by striking out “62 per centum” and insert-~~
17 ~~ing in lieu thereof “70 per centum”.~~

18 (c) MAXIMUM TAX.—Section 430 (a) (2) (relating
19 to the limitation on the rate of the excess profits tax) is
20 hereby amended as follows:

21 (1) By inserting after “(2)” the following: “(A)
22 in the case of taxable years ending before April 1,
23 1951,”.

24 (2) By striking out the period at the end of para-

graph (2) and inserting “, or” and by adding after paragraph (2) the following:

“(B) in the case of taxable years beginning on January 1, 1951, and ending on December 31, 1951, an amount equal to $16\frac{1}{2}$ per centum of the excess profits net income for the taxable year, except that in the case of an affiliated group of includible corporations making or required to make a consolidated return for the taxable year under section 141, such amount shall be reduced by an amount which bears the same ratio (but not in excess of 100 per centum) to the increase of 2 per centum in the surtax imposed by reason of section 141 (c) as the amount of the consolidated excess profits net income bears to the amount of the consolidated corporation surtax net income, or

“(C) in the case of taxable years beginning after March 31, 1951, an amount equal to 17 per centum of the excess profits net income for the taxable year, except that in the case of an affiliated group of includible corporations making or required to make a consolidated return for the taxable year under section 141, such amount shall be reduced by an amount which bears the same ratio (but not in excess of 100 per centum) to the increase of 2 per centum in the surtax imposed by reason

1 of section 141 (c) as the amount of the consolidated excess
 2 profits net income bears to the amount of the consolidated
 3 corporation surtax net income, or”.

4 ~~(c) MUTUAL INSURANCE COMPANIES OTHER THAN~~
 5 ~~LIFE OR MARINE.—~~

6 ~~(1) Section 207 (a) (1) (relating to normal tax~~
 7 ~~and surtax on mutual insurance companies, other than~~
 8 ~~life or marine) is hereby amended by striking out sub-~~
 9 ~~paragraphs (A) and (B) and inserting in lieu thereof~~
 10 ~~the following:~~

11 ~~“(A) Normal Tax.—A normal tax of 30 per~~
 12 ~~centum of the normal-tax net income, or 60 per~~
 13 ~~centum of the amount by which the normal-tax~~
 14 ~~net income exceeds \$3,000, whichever is the lesser;~~
 15 ~~plus~~

16 ~~“(B) Surtax.—A surtax of 22 per centum~~
 17 ~~of the corporation surtax net income in excess of~~
 18 ~~\$25,000.”~~

19 ~~(2) Section 207 (a) (3) (relating to a normal~~
 20 ~~tax and surtax on interinsurers and reciprocal under-~~
 21 ~~writers) is hereby amended by striking out subpara-~~
 22 ~~graphs (A) and (B) and inserting in lieu thereof the~~
 23 ~~following:~~

24 ~~“(A) Normal Tax.—A normal tax of 30 per~~
 25 ~~centum of the normal-tax net income, or 60 per~~

centum of the amount by which the normal tax net income exceeds \$50,000, whichever is the lesser; plus

“(B) Surtax.—A surtax of 22 per centum of the corporation surtax net income in excess of \$25,000, or 33 per centum of the amount by which the corporation surtax net income exceeds \$50,000, whichever is the lesser.”

(d) REGULATED INVESTMENT COMPANIES.—Section

362 (b) (relating to tax on regulated investment companies) is hereby amended by striking out paragraphs (3) and (4) and inserting in lieu thereof the following:

“(3) There shall be levied, collected, and paid for each taxable year upon its supplement Q net income a tax equal to 30 per centum of the amount thereof.

“(4) There shall be levied, collected, and paid for each taxable year upon its supplement Q surtax net income a tax equal to 22 per centum of the amount thereof in excess of \$25,000.”

(e) BUSINESS INCOME OF CERTAIN SECTION 101

ORGANIZATIONS.—Section 421 (a) (1) (relating to imposition of tax on business income of certain section 101 organizations) is hereby amended by striking out “25 per centum” and inserting in lieu thereof “30 per centum”.

1 ~~(f)~~ TECHNICAL AMENDMENTS.—

2 ~~(1)~~ REPEAL OF SECTION 14.—Section 14 (~~relat-~~
3 ing to normal tax on special classes of corporations in the
4 case of taxable years beginning before July 1, 1950)
5 is hereby repealed.

6 ~~(2)~~ AMENDMENT OF SECTION 15.—Section 15
7 (~~relating to surtax on corporations~~) is hereby amended
8 to read as follows:

9 “SEC. 15. SURTAX ON CORPORATIONS.

10 “~~(a)~~ CORPORATION SURTAX NET INCOME.—For the
11 purpose of this chapter, the term ‘corporation surtax net
12 income’ means the net income minus the sum of the follow-
13 ing credits:

14 “~~(1)~~ The credit for dividends received provided in
15 section 26 ~~(b)~~;

16 “~~(2)~~ In the case of a public utility, the credit for
17 dividends paid on its preferred stock provided in section
18 26 ~~(h)~~;

19 “~~(3)~~ In the case of a western hemisphere trade
20 corporation (~~as defined in section 109~~), the credit pro-
21 vided in section 26 ~~(i)~~.

22 “~~(b)~~ IMPOSITION OF TAX.—There shall be levied, col-
23 lected and paid for each taxable year upon the corporation
24 surtax net income of every corporation (~~except a corporation~~
25 subject to a tax imposed by section 231 ~~(a)~~, supplement G,

1 or supplement Q) a surtax of 22 per centum of the amount
 2 of the corporation surtax net income in excess of the surtax
 3 exemption provided in section 26(j).”

4 (d) *MUTUAL INSURANCE COMPANIES OTHER*
 5 *THAN LIFE OR MARINE.*—

6 (1) Section 207 (a) (1) (relating to normal tax
 7 and surtax on mutual insurance companies, other than
 8 life or marine) is hereby amended by striking out sub-
 9 paragraphs (A) and (B) and inserting in lieu thereof
 10 the following:

11 “(A) *Taxable Years Beginning After De-*
 12 *cember 31, 1950, and Before April 1, 1951.*—In
 13 the case of taxable years beginning after December
 14 31, 1950, and before April 1, 1951, and ending
 15 after March 31, 1951—

16 “(i) *Normal tax.*—A normal tax on the
 17 normal-tax net income, computed at the rate
 18 provided in section 13 (b) (1), or 53 per
 19 centum of the amount by which the normal-tax
 20 net income exceeds \$3,000, whichever is the
 21 lesser; plus

22 “(ii) *Surtax.*—A surtax on the corporation
 23 surtax net income, computed as provided in sec-
 24 tion 15 (b) (1).

25 “(B) *Taxable Years Beginning After March*

1 31, 1951, and Before January 1, 1954.—In the
2 case of taxable years beginning after March 31,
3 1951, and before January 1, 1954—

4 “(i) Normal tax.—A normal tax on the
5 normal-tax net income, computed at the rate
6 provided in section 13 (b) (2), or 54 per
7 centum of the amount by which the normal-tax
8 net income exceeds \$3,000, whichever is the
9 lesser; plus

10 “(ii) Surtax.—A surtax on the corpora-
11 tion surtax net income, computed as provided in
12 section 15 (b) (2).

13 “(C) Taxable Years Beginning After Decem-
14 ber 31, 1953.—In the case of a taxable year begin-
15 ning after December 31, 1953—

16 “(i) Normal tax.—A normal tax on the
17 normal-tax net income, computed at the rate
18 provided in section 13 (b) (3), or 50 per
19 centum of the amount by which the normal-tax
20 net income exceeds \$3,000, whichever is the
21 lesser; plus

22 “(ii) Surtax.—A surtax on the corporation
23 surtax net income, computed as provided in sec-
24 tion 15 (b) (3).”

25 (2) Section 207 (a) (3) (relating to a normal tax

1 *and surtax on interinsurers and reciprocal underwriters)*
2 *is hereby amended by striking out subparagraphs (A)*
3 *and (B) and inserting in lieu thereof the following:*

4 *“(A) Taxable Years Beginning After Decem-*
5 *ber 31, 1950, and before April 1, 1951.—In the*
6 *case of taxable years beginning after December 31,*
7 *1950, and before April 1, 1951, and ending after*
8 *March 31, 1951—*

9 *“(i) Normal tax.—A normal tax on the*
10 *normal-tax net income, computed at the rate*
11 *provided in section 13 (b) (1), or 53 per*
12 *centum of the amount by which the normal-tax*
13 *net income exceeds \$50,000, whichever is the*
14 *lesser; plus*

15 *“(ii) Surtax.—A surtax on the corpo-*
16 *ration surtax net income, computed as pro-*
17 *vided in section 15 (b) (1), or $36\frac{3}{8}$ per centum*
18 *of the amount by which the corporation surtax*
19 *net income exceeds \$50,000, whichever is the*
20 *lesser.*

21 *“(B) Taxable Years Beginning After March*
22 *31, 1951, and Before January 1, 1954.—*

23 *“(i) Normal tax.—A normal tax on the*
24 *normal-tax net income, computed at the rate*
25 *provided in section 13 (b) (2), or 54 per*

1 centum of the amount by which the normal-tax
2 net-income exceeds \$50,000, whichever is the
3 lesser; plus

4 “(ii) Surtax.—A surtax on the corporation
5 surtax net income, computed as provided in
6 section 15 (b) (2), or $37\frac{1}{2}$ per centum of the
7 amount by which the corporation surtax net
8 income exceeds \$50,000, whichever is the lesser.

9 “(C) Taxable Years Beginning After Decem-
10 ber 31, 1953.—In the case of a taxable year begin-
11 ning after December 31, 1953—

12 “(i) Normal tax.—A normal tax on the
13 normal-tax net income computed at the rate
14 provided in section 13 (b) (3), or 50 per
15 centum of the amount by which the normal-tax
16 net income exceeds \$50,000, whichever is the
17 lesser; plus

18 “(ii) Surtax.—A surtax on the corporation
19 surtax net income, computed as provided in
20 section 15 (b) (3), or 33 per centum of the
21 amount by which the corporation surtax net
22 income exceeds \$50,000, whichever is the lesser.”

23 (e) REGULATED INVESTMENT COMPANIES.—Section
24 362 (b) (relating to tax on regulated investment companies)

1 is hereby amended by striking out paragraphs (3) and (4)
2 and inserting in lieu thereof the following:

3 “(3) In the case of taxable years beginning after
4 December 31, 1950, and before April 1, 1951, and end-
5 ing after March 31, 1951, there shall be levied, collected,
6 and paid for each taxable year upon its Supplement Q
7 net income a tax equal to $26\frac{1}{2}$ per centum of the amount
8 thereof. In the case of taxable years beginning after
9 March 31, 1951, and before January 1, 1954, there
10 shall be levied, collected, and paid for each taxable year
11 upon its Supplement Q net income a tax equal to 27
12 per centum of the amount thereof. In the case of taxable
13 years beginning after December 31, 1953, there shall
14 be levied, collected, and paid for each taxable year upon
15 its Supplement Q net income a tax equal to 25 per
16 centum of the amount thereof.

17 “(4) In the case of taxable years beginning after
18 December 31, 1950, and before April 1, 1951, and end-
19 ing after March 31, 1951, there shall be levied, col-
20 lected, and paid for each taxable year upon its Supple-
21 ment Q surtax net income a tax equal to $24\frac{1}{4}$ per centum
22 of the amount thereof in excess of \$25,000. In the case
23 of taxable years beginning after March 31, 1951, and
24 before January 1, 1954, there shall be levied, collected,

1 *and paid for each taxable year upon its Supplement*
 2 *Q surtax net income a tax equal to 25 per centum of the*
 3 *amount thereof in excess of \$25,000. In the case of*
 4 *taxable years beginning after December 31, 1953, there*
 5 *shall be levied, collected, and paid for each taxable year*
 6 *upon its Supplement Q surtax net income a tax equal to*
 7 *22 per centum of the amount thereof in excess of*
 8 *\$25,000."*

9 *(f) BUSINESS INCOME OF CERTAIN SECTION 101*
 10 *ORGANIZATIONS.—Section 421 (a) (1) (relating to im-*
 11 *position of tax on business income of certain section 101*
 12 *organizations) is hereby amended by inserting before the*
 13 *period at the end thereof the following: “; except that (A)*
 14 *in the case of taxable years beginning before April 1, 1951,*
 15 *and ending after March 31, 1951, the normal tax shall be*
 16 *26½ per centum of the Supplement U net income and the*
 17 *surtax shall be 24¼ per centum of the amount of the Sup-*
 18 *plement U net income in excess of \$25,000, and (B) in the*
 19 *case of taxable years beginning after March 31, 1951, and*
 20 *before January 1, 1954, the normal tax shall be 27*
 21 *per centum of the Supplement U net income and the sur-*
 22 *tax shall be 25 per centum of the amount of the Supplement*
 23 *U net income in excess of \$25,000”.*

24 *(g) TECHNICAL AMENDMENT.—Section 14 (relating to*

1 normal tax on special classes of corporations in the case of
 2 taxable years beginning before July 1, 1950) is hereby
 3 repealed.

4 **SEC. 122. CREDITS OF CORPORATIONS.**

5 ~~(a)~~ **DIVIDENDS RECEIVED CREDIT.**—Paragraphs ~~(1)~~
 6 and ~~(2)~~ of section 26 ~~(b)~~ ~~(relating to credit for dividends~~
 7 ~~received)~~ are hereby amended to read as follows:

8 “~~(1)~~ **IN GENERAL.**—85 per centum of the amount
 9 received as dividends ~~(other than dividends described~~
 10 ~~in paragraph (2) on the preferred stock of a public~~
 11 ~~utility)~~ from a domestic corporation which is subject
 12 to taxation under this chapter; and

13 “~~(2)~~ **CERTAIN PREFERRED STOCK.**—62 per
 14 centum of the amount received as dividends on the pre-
 15 ferred stock of a public utility which is subject to taxa-
 16 tion under this chapter.”

17 ~~(b)~~ **CREDIT FOR DIVIDENDS PAID ON CERTAIN**
 18 **PREFERRED STOCK.**—The first sentence of section 26 ~~(h)~~
 19 ~~(1)~~ ~~(relating to amount of credit for dividends paid on~~
 20 ~~certain preferred stock)~~ is hereby amended to read as follows:
 21 “In the case of a public utility, an amount equal to 27 per
 22 centum of the lesser of ~~(A)~~ the amount of dividends paid
 23 during the taxable year on its preferred stock or ~~(B)~~ the

1 adjusted net income for such taxable year minus the credit
 2 for dividends received provided in subsection (b) for such
 3 year.”

4 ~~(e) WESTERN HEMISPHERE TRADE CORPORATIONS.—~~
 5 Section 26 (i) ~~(relating to credit of a western hemisphere~~
 6 ~~trade corporation)~~ is hereby amended to read as follows:

7 “(i) ~~WESTERN HEMISPHERE TRADE CORPORATIONS.—~~
 8 In the case of a western hemisphere trade corporation (as
 9 defined in section 109), an amount equal to 27 per centum
 10 of its normal-tax net income computed without regard to the
 11 credit provided in this subsection.”

12 SEC. 122. CREDITS OF CORPORATIONS.

13 (a) *DIVIDENDS RECEIVED CREDIT.*—Paragraphs
 14 (1) and (2) of section 26 (b) (relating to credit for divi-
 15 dends received) are hereby amended to read as follows:

16 “(1) *IN GENERAL.*—85 per centum of the amount
 17 received as dividends (other than dividends described
 18 in paragraph (2) on the preferred stock of a public
 19 utility) from a domestic corporation which is subject to
 20 taxation under this chapter.

21 “(2) *CERTAIN PREFERRED STOCK.*—

22 “(A) *Calendar Year 1951.*—In the case of a
 23 taxable year beginning on January 1, 1951, and
 24 ending on December 31, 1951, 61 per centum of the
 25 amount received as dividends on the preferred stock

1 of a public utility which is subject to taxation under
2 this chapter and with respect to which the credit
3 provided in section 26 (h) for dividends paid is
4 allowable.

5 “(B) Taxable Years Beginning After March
6 31, 1951, and Before January 1, 1954.—In the
7 case of taxable years beginning after March
8 31, 1951, and before January 1, 1954, 62 per
9 centum of the amount received as dividends on the
10 preferred stock of a public utility which is subject
11 to taxation under this chapter and with respect to
12 which the credit provided in section 26 (h) for
13 dividends paid is allowable.

14 “(C) Taxable Years Beginning After December
15 31, 1953.—In the case of taxable years beginning
16 after December 31, 1953, 59 per centum of the
17 amount received as dividends on the preferred stock
18 of a public utility which is subject to taxation under
19 this chapter and with respect to which the credit
20 provided in section 26 (h) for dividends paid is
21 allowable.”

22 (b) CREDIT FOR DIVIDENDS PAID ON CERTAIN

23 PREFERRED STOCK.—The first sentence of section 26 (h)

24 (1) (relating to amount of credit for dividends paid on

25 certain preferred stock) is hereby amended to read as follows:

1 *"In the case of a public utility, (A) for a taxable year*
 2 *beginning on January 1, 1951, and ending on De-*
 3 *cember 31, 1951, an amount equal to 28 per centum*
 4 *of the lesser of (i) the amount of dividends paid dur-*
 5 *ing the taxable year on its preferred stock or (ii) the*
 6 *adjusted net income for such taxable year minus the credit*
 7 *for dividends received provided in subsection (b) for such*
 8 *year, (B) for a taxable year beginning after March 31.*
 9 *1951, and before January 1, 1954, an amount equal to*
 10 *27 per centum of the lesser of (i) the amount of dividends*
 11 *paid during the taxable year on its preferred stock or (ii)*
 12 *the adjusted net income for such taxable year minus the*
 13 *credit for dividends received provided in subsection (b)*
 14 *for such year, and (C) for a taxable year beginning after*
 15 *December 31, 1953, an amount equal to 30 per centum*
 16 *of the lower of (i) the amount of dividends paid during*
 17 *the taxable year on its preferred stock or (ii) the adjusted*
 18 *net income for such taxable year minus the credit for*
 19 *dividends received provided in subsection (b) for such year."*

20 *(c) WESTERN HEMISPHERE TRADE CORPORATIONS.—*
 21 *Section 26 (i) (relating to credit of a western hemisphere*
 22 *trade corporation) is hereby amended to read as follows:*

23 *"(i) WESTERN HEMISPHERE TRADE CORPORATIONS.—*
 24 *In the case of a western hemisphere trade corporation (as*
 25 *defined in section 109)—*

“(1) *CALENDAR YEAR 1951.*—In the case of a taxable year beginning on January 1, 1951, and ending on December 31, 1951, an amount equal to $27\frac{1}{2}$ per centum of its normal-tax net income computed without regard to the credit provided in this subsection.

“(2) *TAXABLE YEARS BEGINNING AFTER MARCH 31, 1951, AND BEFORE JANUARY 1, 1954.*—In the case of a taxable year beginning after March 31, 1951, and before January 1, 1954, an amount equal to 27 per centum of its normal-tax net income computed without regard to the credit provided in this subsection.

“(3) *TAXABLE YEARS BEGINNING AFTER DECEMBER 31, 1953.*—In the case of a taxable year beginning after December 31, 1953, an amount equal to 30 per centum of its normal-tax net income computed without regard to the credit provided in this subsection.”

**SEC. 123. SURTAX EXEMPTIONS AND CERTAIN CREDITS
OF RELATED CORPORATIONS.**

~~(a) LIMITATION ON SURTAX EXEMPTION IN THE
CASE OF RELATED CORPORATIONS.~~—Section 26 ~~(relating
to credits of corporations)~~ is hereby amended by adding at
the end thereof the following new subsection:

~~“(j) SURTAX EXEMPTION.—~~

~~“(1) IN GENERAL.—Except in the case of a cor-~~

1 poration to which paragraph ~~(2)~~ is applicable for the
2 taxable year, a surtax exemption of \$25,000.

3 “(2) RELATED CORPORATIONS.—In the case of a
4 corporation which on December 31 of any year is a
5 member of a controlled group as defined in paragraph
6 ~~(3)~~, a surtax exemption, for the taxable year which
7 includes such date, in an amount equal to \$25,000
8 divided by the number of corporations in such group at
9 the close of such date. In lieu of such exemption, a
10 surtax exemption of \$25,000 for the controlled group
11 may be divided ~~(in any manner)~~ by the corporations
12 which at the close of such date are members of such
13 group by making and filing with the Secretary a consent
14 setting forth the portion of the \$25,000 which will
15 be taken by each member as its surtax exemption for
16 its taxable year which includes such date. The consent
17 shall be made and filed at such time and in such manner
18 as the Secretary by regulations may prescribe. If a
19 member of a controlled group has a taxable year which
20 does not include December 31, the surtax exemption for
21 such member for such taxable year shall be an amount
22 equal to \$25,000 divided by the number of corporations
23 in such group at the close of such taxable year.

24 “(3) DEFINITION OF CONTROLLED GROUP.—For

the purposes of paragraph (2), a 'controlled group' means:

“(A) Any group of one or more chains of corporations connected through ownership with a common parent corporation if—

“(i) stock possessing at least 95 per centum of the voting power of all classes of stock of each of the corporations (except the common parent corporation) is owned directly by one or more of the other corporations; and

“(ii) the common parent corporation owns directly stock possessing at least 95 per centum of the voting power of all classes of stock of at least one of the other corporations, excluding, in computing such voting power, stock held by such other corporations.

“(B) Any group of two or more corporations if at least 95 per centum of the voting power of all classes of stock of each of the corporations is owned, directly or indirectly, by or for one individual, or is owned, directly or indirectly, by or for not more than five individuals each of whom owns substantially the same proportion of the voting power in any one of such corporations as he owns in each of

1 the other corporations. For the purposes of this
2 subparagraph—

3 “(i) an individual shall be considered as
4 owning substantially the same proportion of the
5 voting power in any two corporations if, and
6 only if, he could own the same proportion of the
7 voting power in each by increasing by not more
8 than 10 per centum his voting power in one of
9 the corporations and decreasing by not more
10 than 10 per centum his voting power in the
11 other corporation;

12 “(ii) stock owned, directly or indirectly,
13 by or for a corporation, partnership, estate,
14 or trust, shall be considered as being owned
15 proportionately by or for its shareholders, part-
16 ners, or beneficiaries;

17 “(iii) an individual shall be considered as
18 owning the stock owned, directly or indirectly,
19 by or for his spouse;

20 “(iv) if an individual owns more than 50
21 per centum of the voting power in any corpora-
22 tion (including the voting power of the stock
23 owned by him upon the application of clauses
24 (ii) and (iii)), such individual shall be con-
25 sidered as owning the stock owned in such cor-

1 peration, directly or indirectly, by or for his
2 ancestors and lineal descendants;

3 “~~(v)~~ stock constructively owned by a per-
4 son by reason of the application of clause ~~(ii)~~-
5 shall, for the purpose of applying clause ~~(ii)~~,
6 ~~(iii)~~, or ~~(iv)~~, be treated as actually owned by
7 such person, but stock constructively owned by
8 an individual by reason of the application of
9 clause ~~(iii)~~ or ~~(iv)~~ shall not be treated as
10 owned by him for the purpose of applying
11 either such clause in order to make another the
12 constructive owner of such stock; and

13 “~~(vi)~~ if stock may be treated as construc-
14 tively owned by two or more individuals, such
15 stock shall, in any computation to determine
16 the proportionate voting power of such individ-
17 uals, be treated in such computation as construc-
18 tively owned by the individual whose construc-
19 tive ownership of such stock results in the
20 corporation being a member of a controlled
21 group.

22 If a group of corporations described in subparagraph
23 ~~(B)~~ includes a common parent corporation included in
24 a group described in subparagraph ~~(A)~~, then each
25 member of the group described in subparagraph ~~(A)~~ of

1 which the common parent corporation is a member shall
 2 be a member of the group described in subparagraph
 3 (B). For the purposes of this paragraph, treasury
 4 stock shall not be considered to be voting stock."

5 (b) INSURANCE COMPANIES.—Section 201 (g) (re-
 6 lating to credits under section 26 allowed life insurance com-
 7 panies) and section 204 (f) (relating to credits under sec-
 8 tion 26 allowed to insurance companies other than life or
 9 mutual) are each amended by adding at the end thereof
 10 the following new sentence: "In computing the surtax im-
 11 posed by this section, in the manner provided in section
 12 15 (b), the surtax exemption provided in section 26 (j)-
 13 shall be allowed."

14 (c) MINIMUM EXCESS PROFITS CREDIT.—The last
 15 sentence of section 431 (relating to definition of adjusted
 16 excess profits net income) is hereby amended to read as
 17 follows: "If such sum is less than its surtax exemption
 18 provided in section 26 (j) for the taxable year, such sum
 19 shall be increased to the amount of its surtax exemption
 20 for such year."

21 **SEC. 124. COMPUTATION OF ALTERNATIVE CAPITAL GAINS**
 22 **TAX.**

23 (a) ALTERNATIVE TAX.—Section 117 (c) (1) (relat-
 24 ing to alternative tax on corporations) is hereby amended

1 by striking out the second paragraph and inserting in lieu
2 thereof the following:

3 “~~(A)~~ A partial tax shall first be computed
4 upon the net income reduced by the amount of
5 such excess, at the rates and in the manner as if
6 this subsection had not be enacted.

7 “~~(B)~~ There shall then be ascertained an
8 amount equal to 25 per centum of such excess.
9 In the case of taxable years to which the defense
10 tax provided in section 16 ~~(c)~~ is applicable, such
11 amount shall be increased by the percentage speci-
12 fied in such section.

13 “~~(C)~~ The total tax shall be the partial tax
14 computed under subparagraph ~~(A)~~ plus the amount
15 computed under subparagraph ~~(B)~~.”

16 ~~(b)~~ **EFFECTIVE DATE.**—The amendment made by sub-
17 section ~~(a)~~ shall be applicable only with respect to taxable
18 years ending after August 31, 1951.

19 **SEC. 123. FILING OF CORPORATION RETURNS FOR TAXABLE**
20 **YEARS ENDING AFTER MARCH 31, 1951, AND BE-**
21 **FORE OCTOBER 1, 1951.**

22 *In the case of a corporation subject to a tax imposed*
23 *by chapter 1 of the Internal Revenue Code for a taxable*
24 *year ending after March 31, 1951, but prior to October 1,*

1 1951, such corporation shall after the date of the enactment
2 of this Act and on or before January 15, 1952, make a
3 return for such taxable year with respect to the tax imposed
4 by chapter 1 of the Internal Revenue Code for such taxable
5 year. The return required by this section for such taxable
6 year shall constitute the return for such taxable year for all
7 purposes of the Internal Revenue Code; and no return for
8 such taxable year, with respect to any tax imposed by chapter
9 1 of such code, filed on or before the date of the enactment
10 of this Act shall be considered for any of such purposes as
11 a return for such year. The taxes imposed by chapter 1
12 of such code (determined with the amendments made by this
13 Act) for such taxable year shall be paid on January 15,
14 1952, in lieu of the time prescribed in section 56 (a) of
15 such code. All payments with respect to any tax for such
16 taxable year imposed by chapter 1 of such code under the law
17 in effect prior to the enactment of this Act, to the extent
18 that such payments have not been credited or refunded,
19 shall be deemed payments made at the time of the filing of
20 the return required by this section on account of the tax
21 for such taxable year under chapter 1 determined with the
22 amendments made by this Act.

23 **SEC. 125. EFFECTIVE DATE.**

24 Except as provided in section 124, the amendments made
25 by this part shall be applicable only with respect to taxable

1 years beginning after December 31, 1950. For treatment of
 2 taxable years beginning in 1950 and ending in 1951, see part
 3 III of this title.

4 **SEC. 124. EFFECTIVE DATE.**

5 *The amendments made by this part shall be applicable*
 6 *only with respect to taxable years beginning after March*
 7 *31, 1951, and to taxable years beginning on January 1,*
 8 *1951, and ending on December 31, 1951, except that the*
 9 *amendments made to sections 207, 362, and 421 of the In-*
 10 *ternal Revenue Code shall be applicable to taxable years*
 11 *beginning after December 31, 1950, and ending after March*
 12 *31, 1951. In the case of an insurance company subject*
 13 *to the tax imposed by section 207, the provisions of section*
 14 *26 (b) of such code applicable to the calendar year 1951*
 15 *shall be applicable to a taxable year beginning after December*
 16 *31, 1950 and before April 1, 1951 and ending after March*
 17 *31, 1951. For treatment of taxable years (other than the*
 18 *calendar year 1951) beginning before April 1, 1951, and*
 19 *ending after March 31, 1951, see section 131.*

20 **PART III—FISCAL YEAR TAXPAYERS**

21 **SEC. 131. FISCAL YEAR TAXPAYERS.**

22 ~~(a)~~ **AMENDMENT OF SECTION 108.**—Section 108 is
 23 hereby amended by striking out paragraph ~~(2)~~ of sub-
 24 section ~~(f)~~ and inserting in lieu thereof the following:

25 ~~“(2) that portion of a tentative tax consisting of—~~

1 ~~“(A)~~ A tentative normal tax of 25 per centum
2 of the normal-tax net income, plus

3 ~~“(B)~~ a tentative surtax of 20 per centum of
4 the surtax net income in excess of \$25,000,

5 which the number of days in such taxable year after
6 June 30, 1950, and before January 1, 1951, bears to
7 the total number of days in such taxable year, plus (if
8 the taxable year ends in 1951)

9 ~~“(3)~~ that portion of a tentative tax consisting of—

10 ~~“(A)~~ a tentative normal tax of 30 per centum
11 of the normal-tax net income, plus

12 ~~“(B)~~ a tentative surtax of 20 per centum of
13 the surtax net income in excess of \$25,000,

14 which the number of days in such taxable year after
15 December 31, 1950, bears to the total number of days
16 in such taxable year.

17 In computing for the purposes of paragraph ~~(2)~~ the normal-
18 tax net income and the corporation surtax net income, the
19 credits provided in section 26 applicable to taxable years
20 beginning on July 1, 1950, shall be allowed in the manner
21 and to the extent provided in sections 13 and 15
22 applicable to years beginning on such date, except that
23 such credits shall be applied without regard to the amend-
24 ments made to section 26 by title II of the Excess Profits
25 Tax Act of 1950. In computing for the purposes of para-

graph (3) the normal-tax net income and the corporation
 surtax net income; the credits provided in section 26 appli-
 cable to taxable years beginning on January 1, 1951, shall
 be allowed in the manner and to the extent provided in sec-
 tions 13 and 15 applicable to years beginning on such date.

“(g) TAXABLE YEARS OF CORPORATIONS BEGINNING
 AFTER JUNE 30, 1950, AND BEFORE 1951, AND ENDING
 IN 1951.—In the case of a taxable year of a corporation
 beginning after June 30, 1950, and before January 1, 1951,
 and ending after December 31, 1950, the tax imposed by
 sections 13 and 15 shall be an amount equal to the sum of—

“(1) that portion of a tentative tax, computed
 under the provisions of sections 13 and 15 applicable
 to such taxable year, which the number of days in such
 taxable year prior to January 1, 1951, bears to the
 total number of days in such taxable year, plus

“(2) that portion of a tentative tax, computed
 under the provisions of sections 13 and 15 applicable to
 years beginning on January 1, 1951, as if such pro-
 visions were applicable to such taxable year, which the
 number of days in such taxable year after December
 31, 1950, bears to the total number of days in such
 taxable year. For the purposes of this paragraph a
 surtax exemption of \$25,000 shall be allowed in lieu
 of the exemption provided in section 26 (j).

1 “(h) CERTAIN TAXABLE YEARS OF INDIVIDUALS
 2 BEGINNING BEFORE SEPTEMBER 1, 1951, AND ENDING
 3 AFTER AUGUST 31, 1951.—In the case of a taxable year
 4 (other than one beginning on January 1, 1951, and ending
 5 on December 31, 1951) of a taxpayer, other than a corpora-
 6 tion, beginning before September 1, 1951, and ending after
 7 August 31, 1951, the tax imposed by sections 11 and 12,
 8 section 400, or section 421 (a) (2), shall be an amount
 9 equal to the sum of—

10 “(1) that portion of a tentative tax, computed
 11 under the provisions of sections 11 and 12, or section
 12 400, applicable to taxable years beginning on October 1,
 13 1950, which the number of calendar months in such
 14 taxable year prior to September 1, 1951, bears to the
 15 total number of calendar months in such taxable year,
 16 plus

17 “(2) that portion of a tentative tax, computed
 18 under the provisions of sections 11 and 12, or section
 19 400, applicable to years beginning on September 1,
 20 1951, as if such provisions (other than the provisions
 21 relating to head of household) were applicable to such
 22 taxable year, which the number of calendar months
 23 in such taxable year after August 31, 1951, bears to
 24 the total number of calendar months in such taxable
 25 year.

1 For the purposes of this subsection, a calendar month only
 2 part of which falls within the taxable year ~~(A)~~ shall be
 3 disregarded if less than 15 days of such month are included
 4 in such taxable year, and ~~(B)~~ shall be included as a calendar
 5 month within the taxable year if more than 14 days of such
 6 month fall within the taxable year. This subsection shall
 7 not apply in the case of a trust described in section 421
 8 ~~(b) (2)~~ if the taxable year of such trust began before
 9 January 1, 1951."

10 (a) AMENDMENT OF SECTION 108.—Section 108 is
 11 hereby amended by striking out paragraph (2) of subsec-
 12 tion (f) and inserting in lieu thereof the following:

13 “(2) that portion of a tentative tax consisting of—

14 “(A) a tentative normal tax of 25 per centum
 15 of the normal-tax net income, plus

16 “(B) a tentative surtax of 20 per centum of
 17 the surtax net income in excess of \$25,000,

18 which the number of days in such taxable year after
 19 June 30, 1950, and before April 1, 1951, bears to the
 20 total number of days in such taxable year, plus (if the
 21 taxable year ends after March 31, 1951)

22 “(3) that portion of a tentative tax consisting of—

23 “(A) a tentative normal tax of 27 per centum
 24 of the normal-tax net income, plus

1 “(B) a tentative surtax of 23 per centum of
2 the surtax net income in excess of \$25,000,
3 which the number of days in such taxable year after
4 March 31, 1951, bears to the total number of days
5 in such taxable year.

6 In computing for the purposes of paragraph (2) the normal-
7 tax net income and the corporation surtax net income, the
8 credits provided in section 26 applicable to taxable years
9 beginning on July 1, 1950, shall be allowed in the manner
10 and to the extent provided in sections 13 and 15
11 applicable to years beginning on such date, except that
12 such credits shall be applied without regard to the amend-
13 ments made to section 26 by title II of the Excess Profits
14 Tax Act of 1950. In computing for the purposes of para-
15 graph (3) the normal-tax net income and the corporation
16 surtax net income, the credits provided in section 26 appli-
17 cable to taxable years beginning on April 1, 1951, shall
18 be allowed in the manner and to the extent provided in sec-
19 tions 13 and 15 applicable to years beginning on such date.

20 “(g) CERTAIN TAXABLE YEARS OF CORPORATIONS
21 BEGINNING AFTER JUNE 30, 1950, AND BEFORE APRIL 1,
22 1951.—In the case of a taxable year (other than one be-
23 ginning on January 1, 1951, and ending on December 31,
24 1951) of a corporation beginning after June 30, 1950, and
25 before April 1, 1951, and ending after March 31, 1951, the

1 *tax imposed by sections 13 and 15 shall be an amount equal*
2 *to the sum of—*

3 “(1) *that portion of a tentative tax, computed*
4 *under the provisions of sections 13 and 15 applicable*
5 *to such taxable year, which the number of days in such*
6 *taxable year prior to April 1, 1951, bears to the*
7 *total number of days in such taxable year, plus*

8 “(2) *that portion of a tentative tax, computed*
9 *under the provisions of sections 13 and 15 applicable to*
10 *years beginning on April 1, 1951, as if such pro-*
11 *visions were applicable to such taxable year, which the*
12 *number of days in such taxable year after March*
13 *31, 1951, bears to the total number of days in such*
14 *taxable year.*

15 “(h) *CERTAIN TAXABLE YEARS OF INDIVIDUALS*
16 *BEGINNING BEFORE NOVEMBER 1, 1951, AND ENDING*
17 *AFTER OCTOBER 31, 1951.—In the case of a taxable year*
18 *(other than one beginning on January 1, 1951, and ending*
19 *on December 31, 1951) of a taxpayer, other than a corpora-*
20 *tion, beginning before November 1, 1951, and ending after*
21 *October 31, 1951, the tax imposed by sections 11 and 12,*
22 *section 400, or section 421 (a) (2), shall be an amount*
23 *equal to the sum of—*

24 “(1) *that portion of a tentative tax, computed*
25 *under the provisions of sections 11 and 12, section*

1 400, or section 421 (a) (2), applicable to such year,
2 which the number of calendar months in such taxable
3 year prior to November 1, 1951, bears to the total
4 number of calendar months in such taxable year, plus
5 “(2) that portion of a tentative tax, computed
6 under the provisions of sections 11 and 12, section 400,
7 or section 421 (a) (2), applicable to years beginning on
8 November 1, 1951, as if such provisions (other than the
9 provisions relating to head of household) were applicable
10 to such taxable year, which the number of calendar
11 months in such taxable year after October 31, 1951,
12 bears to the total number of calendar months in such
13 taxable year.

14 This subsection shall not apply in the case of a trust de-
15 scribed in section 421 (b) (2) if the taxable year of such
16 trust began before January 1, 1951.

17 “(i) *DEFINITION OF CALENDAR MONTH.*—For the
18 purposes of this section, a calendar month only part of
19 which falls within a taxable year (1) shall be disregarded
20 if less than 15 days of such month are included in such
21 taxable year, and (2) shall be included as a calendar month
22 within the taxable year if more than 14 days of such month
23 fall within the taxable year.

24 “(j) *TAXABLE YEARS OF INDIVIDUALS BEGINNING*
25 *IN 1953 AND ENDING IN 1954.*—In the case of a taxable

1 year of a taxpayer, other than a corporation, beginning
2 before January 1, 1954, and ending after December 31,
3 1953, the tax imposed by sections 11 and 12, section 400,
4 or section 421 (a) (2), shall be an amount equal to the
5 sum of—

6 “(1) that portion of a tentative tax, computed un-
7 der the provisions of sections 11 and 12, section 400, or
8 section 421 (a) (2), applicable to years beginning on
9 January 1, 1953, which the number of calendar months
10 in such taxable year prior to January 1, 1954, bears
11 to the total number of calendar months in such taxable
12 year, plus

13 “(2) that portion of a tentative tax, computed un-
14 der the provisions of sections 11 and 12, section 400,
15 or section 421 (a) (2), applicable to years beginning
16 on January 1, 1954, as if such provisions were appli-
17 cable to such taxable year, which the number of calendar
18 months in such taxable year after December 31, 1953,
19 bears to the total number of calendar months in such
20 taxable year.

21 “(k) TAXABLE YEARS OF CORPORATIONS BEGIN-
22 NING IN 1953 AND ENDING IN 1954.—In the case of a tax-
23 able year of a corporation beginning before January 1, 1954,
24 and ending after December 31, 1953, the tax imposed by

1 sections 13 and 15, or section 421 (a) (1), shall be an
2 amount equal to the sum of—

3 “(1) that portion of a tentative tax, computed under
4 the provisions of sections 13 and 15, or section 421 (a)
5 (1), applicable to years beginning on January 1, 1953,
6 which the number of days in such taxable year prior to
7 January 1, 1954, bears to the total number of days in
8 such taxable year, plus

9 “(2) that portion of a tentative tax, computed under
10 the provisions of sections 13 and 15, or section 421 (a)
11 (1), applicable to years beginning on January 1, 1954,
12 as if such provisions were applicable to such taxable year,
13 which the number of days in such taxable year after
14 December 31, 1953, bears to the total number of days
15 in such taxable year.”

16 (b) COMPUTATION OF EXCESS PROFITS TAX.—Sub-
17 section (b) of section 430 (relating to computation of ex-
18 cess profits tax in the case of certain taxable years) is hereby
19 amended to read as follows:

20 “(b) CERTAIN TAXABLE YEARS BEGINNING BEFORE
21 1951.—

22 “(1) TAXABLE YEARS ENDING BEFORE ~~JANUARY~~
23 ~~APRIL~~ 1, 1951.—In the case of a taxable year beginning
24 before July 1, 1950, and ending after June 30, 1950,
25 and before ~~January~~ April 1, 1951, the tax imposed by

subsection (a) shall be an amount equal to that portion of a tentative tax, computed under the provisions of subsection (a) applicable to taxable years ending on December 31, 1950, which the number of days in such taxable year after June 30, 1950, bears to the total number of days in such taxable year.

“(2) TAXABLE YEARS ENDING AFTER ~~DECEMBER 31, 1950~~ MARCH 31, 1951.—In the case of a taxable year beginning before January 1, 1951, and ending after December 31, 1950 (other than a taxable year beginning on January 1, 1951, and ending on December 31, 1951) beginning before April 1, 1951, and ending after March 31, 1951, the tax imposed by subsection (a) shall be an amount equal to the sum of—

“(A) that portion of a tentative tax, computed under the provisions of subsection (a) applicable to taxable years ending on December 31, 1950, which the number of days in such taxable year after June 30, 1950, and before January April 1, 1951, bears to the total number of days in such taxable year, plus

“(B) that portion of a tentative tax, computed under the provisions of subsection (a) applicable to taxable years beginning on ~~January~~ April 1, 1951, which the number of days in such taxable

1 year after ~~December 31, 1950~~ *March 31, 1951*,
 2 bears to the total number of days in such taxable
 3 year.”

4 (c) TECHNICAL AMENDMENTS.—

5 (1) Section 108 (e) (2) is hereby amended by
 6 inserting after “section 400,” the following: “applica-
 7 ble to years beginning on October 1, 1950,”.

8 (2) Section 108 (g) is hereby amended by strik-
 9 ing out “(g)” and inserting in lieu thereof “~~(i)~~ (l)”

10 **TITLE II—WITHHOLDING OF TAX AT SOURCE**

11 **PART I—WITHHOLDING OF TAX AT SOURCE ON**

12 **DIVIDENDS, INTEREST, AND ROYALTIES**

13 **SEC. 201. COLLECTION OF INCOME TAX AT SOURCE ON**

14 **DIVIDENDS, INTEREST, AND ROYALTIES.**

15 Subtitle B of the Internal Revenue Code is hereby
 16 amended by inserting before chapter 7 the following new
 17 chapter:

18 **“CHAPTER 6—COLLECTION OF INCOME TAX AT**
 19 **SOURCE ON DIVIDENDS, INTEREST, AND ROY-**
 20 **ALTIES**

21 **“Subchapter A—Dividends and Interest**

22 **“SEC. 1200. DEFINITIONS.**

23 **“As used in this chapter—**

24 **“(a) DIVIDEND.—**The term ‘dividend’ means—

1 “(1) any distribution by a corporation which is a
2 dividend as defined in section 115 (a); and

3 “(2) a payment made by a stockbroker to any per-
4 son as a substitute for a dividend (as defined in section
5 115 (a)) upon which a tax is required to be deducted
6 and withheld under this subchapter.

7 “(b) INTEREST.—The term ‘interest’ means—

8 “(1) interest on all bonds, debentures, notes, cer-
9 tificates, or other evidences of indebtedness, issued by
10 any corporation, with interest coupons or in registered
11 form;

12 “(2) interest on deposits with stockbrokers;

13 “(3) interest on amounts held by an insurance
14 company under an agreement to pay interest thereon;
15 and

16 “(4) interest on the overpayment of any internal
17 revenue tax, except income or excess profits taxes im-
18 posed upon corporations.

19 **“SEC. 1201. INCOME TAX COLLECTED AT SOURCE.**

20 “(a) REQUIREMENT OF WITHHOLDING.—Every per-
21 son making payment after December 31, 1951, of a dividend
22 or interest shall deduct and withhold upon such dividend or
23 interest a tax equal to 20 per centum of the amount thereof.
24 If the withholding agent is unable to determine the person

1 to whom the dividend or interest is payable, such tax shall
 2 be deducted and withheld at the time payment thereof would
 3 be made if such person were known. For certain exemptions
 4 from withholding, see section 1202.

5 ~~“(b) WITHHOLDING WHERE AMOUNT OF DIVIDEND~~
 6 ~~IS UNKNOWN.~~—If the withholding agent is unable to deter-
 7 mine the portion of a distribution which is a dividend, the
 8 tax required to be deducted and withheld under this sub-
 9 chapter shall be computed on the entire amount of the
 10 distribution.

11 ~~“(c) INDEMNIFICATION OF WITHHOLDING AGENT.~~—
 12 A withholding agent shall not be liable, except as provided
 13 in section 1203, to any person for the amount of any tax
 14 required to be deducted and withheld under this subchapter.

15 ~~“(d) CREDIT FOR TAX WITHHELD.~~—For credit,
 16 against the income tax of the recipient of the income, of
 17 amounts required to be deducted and withheld under this
 18 subchapter see section 35.

19 **“SEC. 1202. EXEMPTIONS FROM WITHHOLDING.**

20 “The provisions of this chapter shall not apply to:

21 ~~“(a) A dividend paid in the stock or rights to acquire~~
 22 ~~the stock of the distributing corporation, whether or not the~~
 23 ~~recipient of such stock or rights had an option to be paid~~
 24 ~~in money, or other property, in lieu of such stock or rights.~~

25 ~~“(b) Distributions (other than capital gain dividends~~

1 described in section 362 (b) (7)) to shareholders which
2 are treated under chapter 1 as amounts received upon the
3 sale or exchange of property, or distributions with respect
4 to which gain or loss is not recognized under chapter 1 to
5 the shareholders.

6 “(e) Any amount which is includible in gross in-
7 come as a taxable dividend under the provisions of section
8 112 (e) (2) (relating to certain distributions made in pur-
9 suance of a plan of reorganization), section 115 (g) (relat-
10 ing to redemptions of stock), or section 371 (e) (2) (re-
11 lating to certain distributions pursuant to the order of the
12 Securities and Exchange Commission).

13 “(d) A dividend paid by a Federal reserve bank, Fed-
14 eral land bank, Federal home loan bank, Central Bank for
15 Cooperatives, or Bank for Cooperatives.

16 “(e) Any interest which, irrespective of the person to
17 whom payable, is wholly exempt from the tax imposed by
18 chapter 1.

19 “(f) Dividends or interest paid by a corporation to
20 another corporation if both corporations are members of
21 the same affiliated group which filed a consolidated return
22 under chapter 1 for the preceding taxable year of the payor
23 corporation.

24 “(g) Dividends or interest paid by a corporation to one
25 or more (1) governments, (2) political subdivisions thereof,

1 ~~(3)~~ international organizations, or ~~(4)~~ wholly owned in-
2 strumentalities or agencies of the foregoing, if the entire
3 class of stock in respect of which such dividend is paid, or the
4 entire class of obligations in respect of which such interest
5 is paid, is owned by one or more of such governments, sub-
6 divisions, organizations, instrumentalities, or agencies.

7 ~~“(h)~~ Interest on equipment trust certificates.

8 ~~“(i)~~ Dividends or interest paid by a foreign corpora-
9 tion, a nonresident alien individual, any partnership not en-
10 gaged in trade or business within the United States and
11 composed in whole or in part of nonresident aliens, or by
12 an international organization.

13 ~~“(j) (1)~~ Any payment of a dividend or interest (ex-
14 cept coupon bond interest) to ~~(A)~~ a foreign corporation
15 not engaged in trade or business within the United States,
16 ~~(B)~~ a nonresident alien individual, ~~(C)~~ any partnership
17 not engaged in trade or business within the United States
18 and composed in whole or in part of nonresident aliens, or
19 ~~(D)~~ any foreign government or international organization.

20 ~~“(2)~~ Any payment of coupon bond interest to a person
21 described in paragraph ~~(1)~~ of this subsection, but only if a
22 certificate filed (in such form and manner, and at such time,
23 as the Secretary may by regulations prescribe) with the

1 withholding agent discloses that the recipient of such pay-
2 ment is a person described in paragraph (1).

3 “(k) Any payment upon which the withholding agent
4 is required to deduct and withhold a tax under section 143
5 (a) (relating to tax-free covenant bonds, etc.) determined
6 without regard to the provisions of paragraph (2) of such
7 section.

8 “(l) Interest on an obligation of a corporation, issued
9 before January 1, 1951, containing a contract or provision
10 by which the obligor agrees to pay the interest without
11 deduction for any tax which the obligor may be required
12 to pay thereon or to retain therefrom under any law of the
13 United States.

14 “(m) Dividends paid pursuant to the terms of a lease
15 of property entered into prior to January 1, 1951, if under
16 such lease the shareholders of the lesser corporation are en-
17 titled to such dividends without deduction for any tax which
18 any law of the United States might require to be deducted
19 and withheld upon the payment of dividends.

20 “(n) Amounts (whether or not designed as divi-
21 dends) paid by a mutual savings bank, saving and loan
22 association, building and loan association, cooperative bank,
23 homestead association, credit union, or any similar organiza-

tion, in respect of withdrawable or repurchasable shares,
investment certificates, or deposits.

“SEC. 1203. RETURNS AND PAYMENT.

~~“(a) IN GENERAL.~~—Every person required under this
subchapter to deduct and withhold any tax shall make a
return of such tax and shall pay such tax, at such time, for
such period, and in such manner as the Secretary may by
regulations prescribe, by making a return of the total amount
of dividends and interest with respect to which tax is
required to be deducted and withheld by such person under
this subchapter for such period and paying a tax, for which
such person shall be liable, in an amount equal to 20 per
centum of such total.

~~“(b) ADJUSTMENT OF TAX.~~—If more or less than the
correct amount of tax due for any period under subsection
~~(a)~~ is paid with respect to such period, proper adjustments
with respect to the tax shall be made, without interest, in
such manner and at such times as may be prescribed by
regulations made under this subchapter.

**“SEC. 1204. CREDIT FOR REGULATED INVESTMENT COM-
PANIES AND PERSONAL HOLDING COMPANIES.**

“In the case of any withholding agent which is a regu-
lated investment company as defined in section 361 or a
personal holding company as defined in section 501, the
amount required to be deducted and withheld as tax under

1 this chapter with respect to dividends and interest received
 2 by it during a taxable year shall be allowed, under regula-
 3 tions prescribed by the Secretary, as a credit against (but
 4 not in excess of) the tax for which such withholding agent
 5 is liable under section 1203 (a) in respect of dividends and
 6 interest paid by it during such year. For the purposes of
 7 this section a dividend shall be considered as having been
 8 paid within a taxable year (1) in the case of a regulated
 9 investment company, if treated as paid during such taxable
 10 year under section 362 (b) (8), or (2) in the case of a
 11 personal holding company, if claimed under section 504 (c),
 12 in computing undistributed subchapter A net income, in the
 13 return for such year.

14 “Subchapter B—Royalties

15 “SEC. 1220. DEFINITION OF ROYALTY.

16 “As used in this chapter, the term ‘royalty’ means—

17 “(a) any rent or royalty in respect of mines, oil
 18 and gas wells, and other natural deposits, including any
 19 delay rental and any minimum royalty, whether or not
 20 measured by production or by a share of gross or net
 21 income therefrom, and any payment representing a
 22 share of the gross or net income derived from the
 23 extraction and sale of any natural deposit, but only if
 24 the recipient of such rent, royalty, or payment is not
 25 personally obligated to pay a proportionate share of

1 development or operating expenses. For the pur-
2 poses of this chapter, if a royalty, as defined in
3 the preceding sentence, is paid in kind, such payment
4 shall not constitute payment of a royalty, but if the
5 mineral, oil, gas, or other natural deposit so received in
6 kind is sold by or on behalf of the recipient to the pro-
7 ducer or under a division order, the purchaser shall be
8 considered as making payment of the royalty in an
9 amount equal to the purchase price;

10 “(b) any payment, however designated, made by
11 a corporation for the privilege of using any patent, pend-
12 ing application for a patent, copyright, secret process or
13 formula, trade mark, or trade brand, including any pay-
14 ments made by an assignee or an exclusive licensee
15 thereof, if measured by the use of a patent, pending
16 application for a patent, copyright, secret process or
17 formula, trade mark, or trade brand, or if payable over
18 a period substantially coterminous with the period of
19 the payor's right to use such property, but not including
20 any payments in respect of copyrights made to an or-
21 ganization to which subsection (c) is applicable; and

22 “(c) any payment made by an organization to
23 its members in respect of the use of their copyrights, if
24 such organization is authorized to license the use of such

copyrights and has control of the receipt, allocation, and distribution of the payments made for such use.

“SEC. 1221. INCOME TAX COLLECTED AT SOURCE.

“(a) **REQUIREMENT OF WITHHOLDING.**—Every person making payment after December 31, 1951, of a royalty shall deduct and withhold upon such royalty a tax equal to 20 per centum of the amount thereof. If the withholding agent is unable to determine the person to whom the royalty is payable, such tax shall be deducted and withheld at the time payment thereof would be made if such person were known. For certain exemptions from withholding see section 1222.

“(b) **TAX PAID BY RECIPIENT.**—If the withholding agent, in violation of the provisions of this subchapter, fails to deduct and withhold the tax under this subchapter, and thereafter the tax against which such tax may be credited is paid, the tax so required to be deducted and withheld shall not be collected from the withholding agent, but this subsection shall in no case relieve the withholding agent from liability for any penalties or additions to the tax otherwise applicable in respect of such failure to deduct and withhold.

“(c) **LIABILITY FOR TAX.**—The withholding agent shall be liable for the payment of the tax required to be

1 deducted and withheld under this subchapter, and shall not
2 be liable to any person for the amount of any such payment.

3 ~~“(d) REFUNDS AND CREDITS.—~~

4 ~~“(1) WITHHOLDING AGENT.—~~Where there has
5 been an overpayment of tax under this subchapter,
6 refund or credit shall be made to the withholding agent
7 only to the extent that the amount of such overpayment
8 was not deducted and withheld under this subchapter
9 by the withholding agent.

10 ~~“(2) RECIPIENT.—~~For credit, against the income
11 tax of the recipient of the income, of amounts deducted
12 and withheld under this subchapter, see section 35. —

13 ~~“SEC. 1222. EXEMPTIONS FROM WITHHOLDING.~~

14 ~~“The provisions of this chapter shall not apply to—~~

15 ~~“(a) Royalties paid to a corporation or to a govern-~~
16 ~~ment or political subdivision thereof.~~

17 ~~“(b) Royalties paid by a foreign corporation, a non-~~
18 ~~resident alien individual, a partnership not engaged in trade~~
19 ~~or business within the United States and composed in whole~~
20 ~~or in part of nonresident aliens, or an international organi-~~
21 ~~zation.~~

22 ~~“(c) Royalties paid to (1) a nonresident alien indi-~~
23 ~~vidual, (2) a partnership not engaged in trade or business~~
24 ~~within the United States and composed in whole or in part~~
25 ~~of nonresident aliens, or (3) an international organization.~~

1 “SEC. 1223. RETURNS AND PAYMENT.

2 “(a) ~~IN GENERAL.~~—Every person required under this
3 subchapter to deduct and withhold any tax shall make a
4 return of such tax and shall pay such tax, at such time, for
5 such period, and in such manner as the Secretary may by
6 regulations prescribe.

7 “(b) ~~ADJUSTMENT OF TAX.~~—If more or less than the
8 correct amount of tax imposed by this subchapter is paid
9 with respect to any payment of royalties, proper adjustments,
10 with respect both to the tax and the amount to be deducted,
11 shall be made, without interest, in such manner and at such
12 times as may be prescribed by regulations made under this
13 subchapter.

14 “SEC. 1224. RECEIPTS.

15 “(a) ~~REQUIREMENT.~~—Every person required under
16 this subchapter to deduct and withhold tax on a royalty,
17 shall, not later than January 31 of the year succeeding the
18 calendar year in which the royalty is paid, furnish to the
19 payee of the royalty a written statement showing the amount
20 of the royalties paid to such payee during such calendar
21 year, and the amount of tax deducted and withheld under
22 this subchapter in respect of such royalties.

23 “(b) ~~STATEMENTS TO CONSTITUTE INFORMATION~~
24 ~~RETURNS.~~—The statements required to be furnished by this
25 section in respect of any royalty shall be furnished at such

1 other times, shall contain such other information, and shall
2 be in such form as the Secretary may by regulations pre-
3 scribe. A duplicate of such statement if made and filed in
4 accordance with regulations prescribed by the Secretary shall
5 constitute the return required to be made in respect of such
6 royalties under section 147.

7 “(c) EXTENSION OF TIME.—The Secretary, under
8 regulations prescribed by him, may grant to any person a
9 reasonable extension of time (not in excess of 30 days) with
10 respect to the statements required to be furnished by such
11 person under this section.

12 “SEC. 1225. PENALTIES.

13 “(a) CRIMINAL PENALTY.—In lieu of any other pen-
14 alty provided by law (except the penalty provided by sub-
15 section (b) of this section), any person required under the
16 provisions of section 1224 to furnish a statement who will
17 fully furnishes a false or fraudulent statement, or who will
18 fully fails to furnish a statement in the manner, at the time,
19 and showing the information required under section 1224,
20 or regulations prescribed thereunder, shall for each such
21 offense, upon conviction thereof, be fined not more than
22 \$1,000, or imprisoned for not more than one year, or both.

23 “(b) CIVIL PENALTY.—In addition to the penalty pro-
24 vided by subsection (a) of this section, any person required
25 under the provisions of section 1224 to furnish a statement

1 who willfully furnishes a false or fraudulent statement, or
 2 who willfully fails to furnish a statement in the manner, at
 3 the time, and showing the information required under section
 4 1224, or regulations prescribed thereunder, shall for each such
 5 offense be subject to a civil penalty of not more than \$50.

6 **“Subchapter C—General Provisions**

7 **“SEC. 1230. DEFINITIONS.**

8 “As used in this chapter—

9 “(a) **TAXABLE YEAR.**—The term ‘taxable year’ shall
 10 have the same meaning as when used in chapter 1.

11 “(b) **PERSON.**—The term ‘person’ includes any gov-
 12 ernment or political subdivision, or agency or instrumentality
 13 thereof.

14 “(c) **NONRESIDENT ALIEN.**—The term ‘nonresident
 15 alien individual’ includes an alien resident of Puerto Rico.

16 **“SEC. 1231. NONDEDUCTIBILITY OF TAX IN COMPUTING** 17 **NET INCOME.**

18 “Any tax deducted and withheld under this chapter shall
 19 not be allowed as a deduction in computing net income for
 20 the purpose of any tax on income imposed by Act of Congress.

21 **“SEC. 1232. RETURN AND PAYMENT BY GOVERNMENTAL** 22 **PAYOR.**

23 “If the person referred to in section 1203 (a) or 1223
 24 (a) is the United States, or a State, Territory, or political
 25 subdivision thereof, or the District of Columbia, or any

1 agency or instrumentality of any one or more of the fore-
2 going; the return and payment required by such sections
3 shall be made by any officer or employee of the United
4 States, or of such State, Territory, or political subdivision;
5 or of the District of Columbia, or of such agency or instru-
6 mentality, as the case may be, having control of the payment
7 of the dividend, interest, or royalty, or appropriately desig-
8 nated for that purpose.

9 **"SEC. 1233. TAX-EXEMPT ORGANIZATIONS—REFUND.**

10 "In the case of a person which is exempt from the tax
11 imposed by chapter 1, if the amount required to be deducted
12 and withheld as tax under this chapter with respect to
13 dividends and interest received by it during any calendar
14 quarter, and the amount deducted and withheld as tax under
15 this chapter with respect to royalties received by it during
16 such calendar quarter, exceed the credit claimed by and
17 allowed to such person under section 1637 for such quarter,
18 the excess shall be immediately refunded or credited to such
19 person as an overpayment of the tax imposed by this chap-
20 ter, but only if claim therefor is filed (or, if no claim is
21 filed, if credit or refund is made) after the close of such
22 calendar quarter and on or before March 15 of the fourth
23 calendar year beginning after the close of such calendar
24 quarter. No interest shall be allowed or paid with respect

1 to any such refund or credit for any period prior to the date
 2 on which claim for such refund or credit is filed or prior to
 3 March 16 of the calendar year succeeding the close of the
 4 calendar quarter in respect of which such refund or credit
 5 is claimed, whichever date is the later.

6 **"SEC. 1234. FAILURE TO FILE RETURNS.**

7 "In case of a failure to make and file any return re-
 8 quired under this chapter within the time prescribed by
 9 law or prescribed by the Secretary in pursuance of law,
 10 unless it is shown that such failure is due to reasonable cause
 11 and not to willful neglect, the addition to the tax or taxes
 12 required to be shown on such return shall not be less than \$5.

13 **"SEC. 1235. OTHER LAWS APPLICABLE.**

14 "All provisions of law, including penalties, applicable
 15 with respect to any tax imposed by section 2700, and the
 16 provisions of section 3661, shall, insofar as applicable and
 17 not inconsistent with the provisions of this chapter, be ap-
 18 plicable with respect to the tax under this chapter."

19 **SEC. 202. CREDIT FOR TAX WITHHELD.**

20 Section 35 (relating to credit against income tax) is
 21 hereby amended as follows:

22 (1) by striking from the heading thereof the words

23 **"ON WAGES";**

1 ~~(2)~~ by inserting at the beginning of the first para-
 2 graph thereof the following heading: “~~(a)~~ CREDIT FOR
 3 TAX WITHHELD ON WAGES.—”; and

4 ~~(3)~~ by inserting at the end thereof the following
 5 new subsection:

6 “~~(b)~~ CREDIT FOR TAX WITHHELD ON DIVIDENDS, IN-
 7 TEREST, AND ROYALTIES.—Under regulations prescribed by
 8 the Secretary—

9 “~~(1)~~ IN GENERAL.—The amount required to be
 10 deducted and withheld as tax under chapter 6 upon any
 11 payment of a dividend or interest, and the amount de-
 12 ducted and withheld as tax under such chapter upon
 13 any payment of a royalty, shall be allowed as a credit,
 14 to the recipient of the income, against the tax imposed
 15 by this chapter for the taxable year in which the divi-
 16 dend, interest, or royalty is received.

17 “~~(2)~~ PARTNERSHIPS, TRUSTS, AND ESTATES.—If
 18 the recipient of the dividend, interest, or royalty is a
 19 partnership or a common trust fund, then the credit
 20 shall not be allowed to such recipient, but the members
 21 of the partnership, or the participants in the common
 22 trust fund, as the case may be, shall be allowed their
 23 proportionate share of such credit. If the recipient is

1 an estate or trust, and if any legatee, heir, or beneficiary
2 subject to the tax imposed by this chapter is required
3 to include a portion of such dividend, interest, or royalty
4 in computing his net income, such legatee, heir, or
5 beneficiary shall be allowed such portion of the credit
6 as is properly allocable to him on the basis of the in-
7 come allocable to him under section 162 for the tax-
8 able year of the estate or trust, and such portion of the
9 credit shall not be allowed to the estate or trust.

10 “(3) REGULATED INVESTMENT COMPANIES AND
11 PERSONAL HOLDING COMPANIES.—In the case of a regu-
12 lated investment company or a personal holding com-
13 pany, the credit provided in paragraph (1) shall be
14 reduced by the amount of credit allowed such company
15 under section 1204.

16 “(4) TAX EXEMPT ORGANIZATIONS.—The credit
17 provided by this subsection shall not be allowed to any
18 recipient which is exempt from income tax. For credit
19 against the liability of such a recipient in respect of the
20 employment taxes imposed by subchapter A and sub-
21 chapter D of chapter 9, see section 1637. For refund
22 under chapter 6 in the case of such a recipient, see
23 section 1233.”

1 **SEC. 203. CREDITS IN CASE OF ORGANIZATIONS EXEMPT**
2 **FROM TAX.**

3 Subchapter E of chapter 9 (relating to employment
4 taxes) is hereby amended by adding after section 1636 the
5 following new section:

6 **"SEC. 1637. SPECIAL CREDIT IN CASE OF ORGANIZATIONS**
7 **EXEMPT FROM INCOME TAX.**

8 "In the case of any person (including any government
9 or political subdivision, agency, or instrumentality thereof)
10 which is exempt from the tax imposed by chapter 1, the
11 amount required to be deducted and withheld as tax under
12 chapter 6 with respect to dividends and interest received
13 by it during any calendar quarter, and the amount deducted
14 and withheld as tax under such chapter with respect to
15 royalties received by it during such calendar quarter, shall
16 be allowed, under regulations prescribed by the Secretary,
17 as a credit against (but not in excess of) the amount shown
18 on the return of such person as its liability (after the adjust-
19 ments, if any, provided for in sections 1401 (e) and 1411)-
20 for such quarter in respect of the taxes imposed by sub-
21 chapter A and subchapter D of this chapter. Such credit
22 shall be allowed only if claim therefor is made, in accord-
23 ance with such regulations, at the time of the filing of the
24 return under subchapter A and subchapter D for such quarter.
25 For refund under chapter 6, see section 1233."

1 **SEC. 204. TECHNICAL AMENDMENTS.**

2 ~~(a) TAX COMPUTED BY COLLECTOR.~~—Section 51 ~~(f)~~
 3 ~~(relating to tax computed by collector)~~ is hereby amended
 4 to read as follows:

5 ~~“(f) TAX COMPUTED BY COLLECTOR.~~

6 ~~“(1) RETURN REQUIREMENTS.~~—An individual en-
 7 titled to elect to pay the tax imposed by supplement T
 8 whose gross income is less than \$5,000 and is entirely
 9 from one or more of the following sources: wages as
 10 defined in section 1621 ~~(a)~~, or dividends ~~(other than~~
 11 ~~a capital gain dividend as defined in section 362 (b)~~
 12 ~~(7))~~ or interest on which tax is required to be deducted
 13 and withheld under chapter 6, shall at his election be
 14 relieved, by using the form prescribed as the form for
 15 the return for the purposes of this subsection, from show-
 16 ing on the return the tax imposed by this chapter. In
 17 such case the tax shall be computed by the collector.

18 ~~“(2) RESULT OF COMPUTATION.~~—After the col-
 19 lector has computed the tax, he shall mail to the tax-
 20 payer a notice stating the amount determined by the
 21 collector as payable and making demand therefor.

22 ~~“(3) REGULATIONS.~~—The Secretary shall prescribe
 23 regulations for carrying out this subsection, and such
 24 regulations may provide for the application of the rules
 25 of this subsection to cases where the gross income in-

1 eludes items other than those enumerated in paragraph
 2 ~~(1)~~ if the gross income from such other sources is not
 3 more than \$200, and to cases where the gross income is
 4 \$5,000 or more but not more than \$5,200. Such regu-
 5 lations shall provide for the application of this sub-
 6 section in the case of husband and wife, including pro-
 7 visions determining when a joint return under this
 8 subsection may be permitted or required and what con-
 9 stitutes a joint return, whether the liability shall be joint
 10 and several, and whether one spouse may make return
 11 under this subsection and the other without regard to
 12 this subsection.

13 “~~(4)~~ METHOD OF ELECTION.—The election to
 14 have the benefits of this subsection shall be made by
 15 making return on the form prescribed as the form for
 16 the return for the purposes of this subsection. An elec-
 17 tion so made shall constitute an election to pay the tax
 18 imposed by supplement T.”

19 ~~(b)~~ REQUIREMENT OF DECLARATION OF ESTIMATED
 20 TAX.—Section 58 ~~(a)~~ (relating to declaration of estimated
 21 tax) is hereby amended to read as follows:

22 “~~(a)~~ REQUIREMENT OF DECLARATION.—Every in-
 23 dividual ~~(other than an estate or trust and other than a~~
 24 nonresident alien with respect to whose wages, as defined
 25 in section 1621 ~~(a)~~, withholding under subchapter D of

chapter 9 is not made applicable, but including every alien individual who is a resident of Puerto Rico during the entire taxable year) shall, at the time prescribed in subsection (d), make a declaration of his estimated tax for the taxable year if—

“(1) his gross income from wages (as defined in section 1621) and from dividends, interest, and royalties, as defined in chapter 6, upon which a tax is required to be deducted and withheld under such chapter, can reasonably be expected to exceed the sum of \$4,500 plus \$600 with respect to each exemption provided in section 25 (b); or

“(2) his gross income from sources other than wages (as defined in section 1621) and other than dividends, interest, and royalties, as defined in chapter 6, upon which a tax is required to be deducted and withheld under such chapter, can reasonably be expected to exceed \$100 for the taxable year and his gross income to be \$600 or more.”

(c) CREDIT UNDER SECTION 143.—Section 143 (relating to withholding of tax at source) is hereby amended by adding at the end thereof the following new subsection:

“(i) CREDIT FOR TAX WITHHELD AT SOURCE.—Where any person is required to deduct and withhold a tax under subsection (b) on an amount on which a tax was re-

1 quired to be deducted and withheld under subchapter A of
 2 chapter 6, or on an amount on which a tax was deducted and
 3 withheld under subchapter B of such chapter, such person
 4 shall deduct and withhold only the excess of—

5 “(1) the amount which would be required to be
 6 deducted and withheld under subsection (b) but for the
 7 application of chapter 6, over

8 “(2) the amount required to be deducted and with-
 9 held under subchapter A of chapter 6, or the amount
 10 deducted and withheld under subchapter B of such
 11 chapter, whichever is applicable.”

12 (d) CREDIT UNDER SECTION 144.—Section 144 (relat-
 13 ing to payment of corporation income tax at source) is
 14 hereby amended by striking out the period at the end
 15 thereof and adding in lieu thereof the following: “: *Pro-*
 16 *vided further*, That, where any person is required under
 17 this section to deduct and withhold a tax on an amount
 18 on which a tax was required to be deducted and withheld
 19 under subchapter A of chapter 6, or on an amount on which
 20 a tax was deducted and withheld under subchapter B of
 21 such chapter, such person shall deduct and withhold only
 22 the excess of—

23 “(1) the amount which would be required to be
 24 deducted and withheld under this section but for the
 25 application of chapter 6, over

1 ~~“(2)~~ the amount required to be deducted and with-
 2 held under subchapter A of chapter 6, or the amount
 3 deducted and withheld under subchapter B of such
 4 chapter, whichever is applicable.”

5 (c) INFORMATION AT SOURCE.—Subsections (a) and
 6 ~~(b)~~ of section 147 (relating to information at source) are
 7 hereby amended to read as follows:

8 ~~“(a)~~ PAYMENTS OF RENT, SALARIES, INTEREST,
 9 ETC.—All persons, in whatever capacity acting, including
 10 lessees or mortgagors of real or personal property, fidu-
 11 ciaries, and employers, making payment to another person,
 12 of—

13 ~~“(1)~~ rent, salaries, wages, premiums, annuities,
 14 compensations, remunerations, emoluments, or other
 15 fixed or determinable gains, profits, and income (other
 16 than payments described in section 148 (a) or 149), of
 17 \$600 or more in any taxable year, or

18 ~~“(2)~~ interest, upon which tax is required to be
 19 deducted and withheld under chapter 6, of \$300 or more
 20 in any taxable year, or

21 ~~“(3)~~ interest, upon which tax is required to be
 22 deducted and withheld under chapter 6, of \$100 or more
 23 in any taxable year,

24 or, in the case of such payments made by the United States,
 25 the officers or employees of the United States having infor-

1 mation as to such payments and required to make returns
 2 in regard thereto by the regulations hereinafter provided for;
 3 shall render a true and accurate return to the Secretary,
 4 under such regulations and in such form and manner and to
 5 such extent as may be prescribed by him, setting forth the
 6 amount of such gains, profits, and income, and the name and
 7 address of the recipient of such payment.

8 “(b) RETURNS REGARDLESS OF AMOUNT OF PAY-
 9 MENT.—Such returns may be required, regardless of
 10 amounts, ~~(1)~~ in the case of payments of interest, and ~~(2)~~
 11 in the case of collections of items ~~(not payable in the United~~
 12 ~~States)~~ of interest upon the bonds of foreign countries and
 13 interest upon the bonds of and dividends from foreign
 14 corporations by persons undertaking as a matter of business
 15 or for profit the collection of foreign payments of such
 16 interest or dividends by means of coupons, checks, or bills
 17 of exchange. This subsection shall not apply to payments
 18 of interest ~~(other than coupon bond interest)~~ upon which
 19 tax is required to be deducted and withheld under chapter 6.”

20 “(f) INFORMATION BY CORPORATIONS.—Section 148
 21 ~~(a)~~ ~~(relating to information by corporations in the case of~~
 22 ~~dividend payments)~~ is hereby amended by inserting a
 23 comma in lieu of the period at the end thereof and adding
 24 the following: “except that if the amount of dividends paid
 25 to any shareholder during a calendar year is less than \$300

1 and tax is required to be deducted and withheld under chap-
 2 ter 6 upon the entire amount of such dividends, no such
 3 return shall be required with respect to such shareholder for
 4 such calendar year."

5 ~~(g) CLERICAL AMENDMENT.~~—Section 169 ~~(b)~~ ~~(re-~~
 6 ~~lating to taxation of common trust funds)~~ is hereby amended
 7 by striking out "or chapter 6" and by striking out "chapters"
 8 and inserting in lieu thereof "chapter".

9 ~~(h) AMOUNT OF CREDIT CONSIDERED AS PAYMENT.~~—
 10 Section 322 ~~(a)~~ ~~(2)~~ ~~(relating to refunds and credits)~~ is
 11 hereby amended to read as follows:

12 ~~"(2) TREATMENT OF CREDITS.~~—The amount of
 13 credit provided in section 35 against the tax for any
 14 taxable year shall, to the extent thereof, be considered
 15 as payment of the tax for such year, whether or not the
 16 withholding agent has paid to the collector the amount
 17 of the tax deducted and withheld at the source under
 18 subchapter D of chapter 9 of subchapter B of chapter 6
 19 or the amount of tax required to be deducted and with-
 20 held at source under subchapter A of chapter 6."

21 ~~(i) SPECIAL PERIOD OF LIMITATIONS FOR SMALL~~
 22 ~~REFUNDS ON TAX WITHHELD AT SOURCE.~~—Section 322
 23 ~~(b)~~ ~~(relating to statute of limitations on filing claim for~~

1 credit or refund) is hereby amended by adding at the end
2 thereof the following new paragraph:

3 “(7) SPECIAL PERIOD OF LIMITATIONS WITH RE-
4 SPECT TO CERTAIN OVERPAYMENTS RESULTING FROM
5 TAX WITHHELD ON DIVIDENDS, INTEREST, OR ROYAL-
6 TIES.—In the case of an individual filing a claim for
7 credit or refund of an overpayment for a taxable year
8 for which he was not required under section 51 (a) to
9 make a return, if the overpayment is attributable to the
10 credit allowed under section 35 for tax required to be
11 deducted and withheld under subchapter A of chapter 6
12 (relating to tax withheld at source on dividends and
13 interest) or for tax deducted and withheld under sub-
14 chapter B of such chapter (relating to tax withheld at
15 source on royalties), in lieu of the period of limitation
16 prescribed in paragraph (1), the period shall be seven
17 years from the date prescribed by law for filing a return
18 for the taxable year with respect to which the claim is
19 made. In such a case, the amount of credit or refund
20 may exceed the portion of the tax paid within the period
21 prescribed in paragraph (2), to the extent of the
22 amount of the overpayment attributable to such credit

1 allowed under section 35, or to the extent of \$2, which-
 2 ever is the lesser.”

3 ~~(j)~~ PRESUMPTIONS AS TO DATE OF PAYMENT.—See
 4 tion 322 ~~(e)~~ ~~(relating to presumption as to date of pay-~~
 5 ~~ment)~~ is hereby amended to read as follows:

6 “~~(e)~~ PRESUMPTIONS AS TO DATE OF PAYMENT.—For
 7 the purpose of this section—

8 “~~(1)~~ any amount allowable as a credit under see-
 9 tion 32 ~~(relating to credit for tax withheld at source on~~
 10 ~~tax-free covenant bonds and on payments to nonresi-~~
 11 ~~dent aliens and foreign corporations)~~ or under section
 12 35 ~~(relating to credit for tax withheld at source on~~
 13 ~~wages, dividends, interest, and royalties)~~ shall, in re-
 14 spect of the person entitled to such credit, be deemed
 15 to have been paid by him on the last day prescribed
 16 by law, ~~(determined without regard to any extension of~~
 17 ~~time granted the taxpayer)~~ for the filing of the return
 18 for his taxable year with respect to which such amount
 19 is allowable as a credit; and

20 “~~(2)~~ any amount paid as estimated tax for any
 21 taxable year shall be deemed to have been paid on the
 22 last day prescribed by law ~~(determined without regard~~

1 to any extension of time granted the taxpayer) for the
2 filing of the return for such taxable year.”

3 ~~(k)~~ INTEREST ON OVERPAYMENTS.—Section 3771 ~~(f)~~
4 is hereby amended to read as follows:

5 “~~(f)~~ TAX WITHHELD AT SOURCE AND ESTIMATED
6 TAX.—

7 “~~(1)~~ CLAIMS FILED UNDER SPECIAL PERIOD OF
8 LIMITATIONS PROVIDED IN SECTION 322 ~~(b)~~ ~~(7)~~.—If
9 credit or refund of the overpayment would be barred
10 under section 322 ~~(b)~~ except for paragraph ~~(7)~~ thereof,
11 no interest shall be allowed or paid with respect to the
12 overpayment for any period ending prior to the expira-
13 tion of six months after the date on which the claim
14 was filed.

15 “~~(2)~~ CROSS REFERENCE.—For date of payment in
16 respect of estimated tax and tax withheld at source, see
17 section 322 ~~(e)~~.”

1 ~~(l)~~ DEFINITION OF WITHHOLDING AGENT.—Section
 2 3797 ~~(a)~~ ~~(16)~~ is hereby amended by striking out “143 or
 3 144”, and by inserting in lieu thereof “143, 144, 1201, or
 4 1221”.

5 ~~(m)~~ EFFECTIVE DATE.—The amendments made by
 6 subsections ~~(a)~~ and ~~(b)~~ shall be applicable to taxable years
 7 beginning after December 31, 1951.

8 **PART II—INCREASE IN WITHHOLDING OF TAX**
 9 **AT SOURCE ON WAGES**

10 **SEC. 221. PERCENTAGE METHOD OF WITHHOLDING.**

11 Section 1622 ~~(a)~~ ~~(relating to percentage method of~~
 12 ~~withholding)~~ is hereby amended by striking out “18 per
 13 centum” and inserting in lieu thereof “20 per centum”.

14 **SEC. 222. WAGE BRACKET WITHHOLDING.**

15 The tables contained in section 1622 ~~(c)~~ ~~(1)~~ ~~(relating~~
 16 ~~to wage bracket withholding)~~ are hereby amended to read
 17 as follows:

“If the payroll period with respect to an employee is weekly

And the wages are—		And the number of withholding exemptions claimed is—										
At least	But less than	0	1	2	3	4	5	6	7	8	9	10 or more
The amount of tax to be withheld shall be—												
		20% of wages	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
\$0.....	\$13.....	\$2.70	.10	0	0	0	0	0	0	0	0	0
\$13.....	\$14.....	2.90	.30	0	0	0	0	0	0	0	0	0
\$14.....	\$15.....	3.10	.50	0	0	0	0	0	0	0	0	0
\$15.....	\$16.....	3.30	.70	0	0	0	0	0	0	0	0	0
\$16.....	\$17.....	3.50	.90	0	0	0	0	0	0	0	0	0
\$17.....	\$18.....	3.70	1.20	0	0	0	0	0	0	0	0	0
\$18.....	\$19.....	3.90	1.40	0	0	0	0	0	0	0	0	0
\$19.....	\$20.....	4.20	1.60	0	0	0	0	0	0	0	0	0
\$20.....	\$21.....	4.40	1.80	0	0	0	0	0	0	0	0	0
\$21.....	\$22.....	4.60	2.00	0	0	0	0	0	0	0	0	0
\$22.....	\$23.....	4.80	2.20	0	0	0	0	0	0	0	0	0
\$23.....	\$24.....	5.00	2.40	0	0	0	0	0	0	0	0	0
\$24.....	\$25.....	5.20	2.60	0	0	0	0	0	0	0	0	0
\$25.....	\$26.....	5.40	2.80	.20	0	0	0	0	0	0	0	0
\$26.....	\$27.....	5.60	3.00	.40	0	0	0	0	0	0	0	0
\$27.....	\$28.....	5.80	3.20	.60	0	0	0	0	0	0	0	0
\$28.....	\$29.....	6.00	3.40	.80	0	0	0	0	0	0	0	0
\$29.....	\$30.....	6.20	3.60	1.00	0	0	0	0	0	0	0	0
\$30.....	\$31.....	6.40	3.80	1.20	0	0	0	0	0	0	0	0
\$31.....	\$32.....	6.60	4.00	1.40	0	0	0	0	0	0	0	0
\$32.....	\$33.....	6.80	4.20	1.60	0	0	0	0	0	0	0	0
\$33.....	\$34.....	7.00	4.40	1.80	0	0	0	0	0	0	0	0
\$34.....	\$35.....	7.20	4.60	2.00	0	0	0	0	0	0	0	0
\$35.....	\$36.....	7.40	4.80	2.20	0	0	0	0	0	0	0	0
\$36.....	\$37.....	7.60	5.00	2.40	0	0	0	0	0	0	0	0
\$37.....	\$38.....	7.80	5.20	2.60	0	0	0	0	0	0	0	0
\$38.....	\$39.....	8.00	5.40	2.80	.20	0	0	0	0	0	0	0
\$39.....	\$40.....	8.20	5.60	3.00	.40	0	0	0	0	0	0	0
\$40.....	\$41.....	8.40	5.80	3.20	.60	0	0	0	0	0	0	0
\$41.....	\$42.....	8.60	6.00	3.40	.80	0	0	0	0	0	0	0
\$42.....	\$43.....	8.80	6.20	3.60	1.00	0	0	0	0	0	0	0
\$43.....	\$44.....	9.00	6.40	3.80	1.20	0	0	0	0	0	0	0
\$44.....	\$45.....	9.20	6.60	4.00	1.40	0	0	0	0	0	0	0
\$45.....	\$46.....	9.40	6.80	4.20	1.60	0	0	0	0	0	0	0
\$46.....	\$47.....	9.60	7.00	4.40	1.80	0	0	0	0	0	0	0
\$47.....	\$48.....	9.80	7.20	4.60	2.00	0	0	0	0	0	0	0
\$48.....	\$49.....	10.00	7.40	4.80	2.20	0	0	0	0	0	0	0
\$49.....	\$50.....	10.20	7.60	5.00	2.40	0	0	0	0	0	0	0
\$50.....	\$51.....	10.40	7.80	5.20	2.60	0	0	0	0	0	0	0
\$51.....	\$52.....	10.60	8.00	5.40	2.80	.20	0	0	0	0	0	0
\$52.....	\$53.....	10.80	8.20	5.60	3.00	.40	0	0	0	0	0	0
\$53.....	\$54.....	11.00	8.40	5.80	3.20	.70	0	0	0	0	0	0
\$54.....	\$55.....	11.20	8.60	6.00	3.50	.90	0	0	0	0	0	0
\$55.....	\$56.....	11.40	8.80	6.20	3.70	1.10	0	0	0	0	0	0
\$56.....	\$57.....	11.60	9.00	6.50	3.90	1.30	0	0	0	0	0	0
\$57.....	\$58.....	11.80	9.30	6.70	4.10	1.50	0	0	0	0	0	0
\$58.....	\$59.....	12.00	9.50	6.90	4.30	1.70	0	0	0	0	0	0
\$59.....	\$60.....	12.40	9.80	7.20	4.60	2.00	0	0	0	0	0	0
\$60.....	\$61.....	12.80	10.20	7.60	5.00	2.40	0	0	0	0	0	0
\$61.....	\$62.....	13.20	10.60	8.00	5.40	2.80	.20	0	0	0	0	0
\$62.....	\$63.....	13.60	11.00	8.40	5.80	3.20	.60	0	0	0	0	0
\$63.....	\$64.....	14.00	11.40	8.80	6.20	3.60	1.00	0	0	0	0	0
\$64.....	\$65.....	14.40	11.80	9.20	6.60	4.00	1.40	0	0	0	0	0
\$65.....	\$66.....	14.80	12.20	9.60	7.00	4.40	1.80	0	0	0	0	0
\$66.....	\$67.....	15.20	12.60	10.00	7.40	4.80	2.20	0	0	0	0	0
\$67.....	\$68.....	15.60	13.00	10.40	7.80	5.20	2.60	0	0	0	0	0
\$68.....	\$69.....	16.00	13.40	10.80	8.20	5.60	3.00	.40	0	0	0	0
\$69.....	\$70.....	16.40	13.80	11.20	8.60	6.00	3.40	.80	0	0	0	0
\$70.....	\$71.....	16.80	14.20	11.60	9.00	6.40	3.80	1.20	0	0	0	0
\$71.....	\$72.....	17.20	14.60	12.00	9.40	6.80	4.20	1.60	0	0	0	0
\$72.....	\$73.....	17.60	15.00	12.40	9.80	7.20	4.60	2.00	0	0	0	0
\$73.....	\$74.....	18.00	15.40	12.80	10.20	7.60	5.00	2.40	0	0	0	0
\$74.....	\$75.....	18.40	15.80	13.20	10.60	8.00	5.40	2.90	.30	0	0	0
\$75.....	\$76.....	18.80	16.20	13.60	11.00	8.40	5.90	3.30	.70	0	0	0
\$76.....	\$77.....	19.20	16.60	14.00	11.40	8.90	6.30	3.70	1.10	0	0	0
\$77.....	\$78.....	19.60	17.00	14.50	11.90	9.30	6.70	4.10	1.50	0	0	0
\$78.....	\$79.....	20.00	17.50	14.90	12.30	9.70	7.10	4.50	1.90	0	0	0
\$79.....	\$80.....	20.80	18.20	15.60	13.00	10.40	7.80	5.20	2.60	0	0	0
\$80.....	\$81.....	21.80	19.20	16.60	14.00	11.40	8.80	6.20	3.60	1.00	0	0
\$81.....	\$82.....	22.80	20.20	17.60	15.00	12.40	9.80	7.20	4.60	2.00	0	0
\$82.....	\$83.....	23.80	21.20	18.60	16.00	13.40	10.80	8.20	5.60	3.00	.40	0
\$83.....	\$84.....	24.80	22.20	19.60	17.00	14.40	11.80	9.20	6.60	4.00	1.40	0
\$84.....	\$85.....	25.80	23.20	20.60	18.00	15.40	12.80	10.20	7.60	5.00	2.50	0
\$85.....	\$86.....	26.80	24.20	21.60	19.00	16.40	13.90	11.30	8.70	6.10	3.50	.90
\$86.....	\$87.....	27.80	25.20	22.70	20.10	17.50	14.90	12.30	9.70	7.10	4.50	1.90
\$87.....	\$88.....	28.90	26.30	23.70	21.10	18.50	15.90	13.30	10.70	8.10	5.50	2.90
\$88.....	\$89.....	29.90	27.30	24.70	22.10	19.50	16.90	14.30	11.70	9.10	6.50	3.90
\$89.....	\$90.....	31.40	28.80	26.20	23.60	21.00	18.40	15.80	13.20	10.60	8.00	5.40
\$90.....	\$91.....	33.40	30.80	28.20	25.60	23.00	20.40	17.80	15.20	12.60	10.00	7.50
\$91.....	\$92.....	35.40	32.80	30.20	27.60	25.10	22.50	19.90	17.30	14.70	12.10	9.50
\$92.....	\$93.....	37.50	34.90	32.30	29.70	27.10	24.50	21.90	19.30	16.70	14.10	11.50
\$93.....	\$94.....	39.50	36.90	34.30	31.70	29.10	26.50	23.90	21.30	18.70	16.10	13.50
\$200 and over.....		20 percent of the excess over \$200 plus—										
		40.50	37.90	35.30	32.70	30.10	27.50	24.90	22.30	19.70	17.10	14.50

"If the payroll period with respect to an employee is biweekly

And the wages are—		And the number of withholding exemptions claimed is—										
At least	But less than	0	1	2	3	4	5	6	7	8	9	10 or more
The amount of tax to be withheld shall be—												
		20% of wages	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
\$0	\$26	\$5.50	.30	0	0	0	0	0	0	0	0	0
\$26	\$28	5.90	.70	0	0	0	0	0	0	0	0	0
\$28	\$30	6.30	1.10	0	0	0	0	0	0	0	0	0
\$30	\$32	6.70	1.50	0	0	0	0	0	0	0	0	0
\$32	\$34	7.10	1.90	0	0	0	0	0	0	0	0	0
\$34	\$36	7.50	2.30	0	0	0	0	0	0	0	0	0
\$36	\$38	7.90	2.70	0	0	0	0	0	0	0	0	0
\$38	\$40	8.30	3.10	0	0	0	0	0	0	0	0	0
\$40	\$42	8.70	3.50	0	0	0	0	0	0	0	0	0
\$42	\$44	9.10	3.90	0	0	0	0	0	0	0	0	0
\$44	\$46	9.50	4.30	0	0	0	0	0	0	0	0	0
\$46	\$48	9.90	4.70	0	0	0	0	0	0	0	0	0
\$48	\$50	10.30	5.10	0	0	0	0	0	0	0	0	0
\$50	\$52	10.70	5.50	.30	0	0	0	0	0	0	0	0
\$52	\$54	11.10	5.90	.80	0	0	0	0	0	0	0	0
\$54	\$56	11.50	6.40	1.20	0	0	0	0	0	0	0	0
\$56	\$58	11.90	6.80	1.60	0	0	0	0	0	0	0	0
\$58	\$60	12.40	7.20	2.00	0	0	0	0	0	0	0	0
\$60	\$62	12.80	7.60	2.40	0	0	0	0	0	0	0	0
\$62	\$64	13.20	8.00	2.80	0	0	0	0	0	0	0	0
\$64	\$66	13.60	8.40	3.20	0	0	0	0	0	0	0	0
\$66	\$68	14.00	8.80	3.60	0	0	0	0	0	0	0	0
\$68	\$70	14.40	9.20	4.00	0	0	0	0	0	0	0	0
\$70	\$72	14.80	9.60	4.40	0	0	0	0	0	0	0	0
\$72	\$74	15.20	10.00	4.80	0	0	0	0	0	0	0	0
\$74	\$76	15.60	10.40	5.20	0	0	0	0	0	0	0	0
\$76	\$78	16.00	10.80	5.60	.40	0	0	0	0	0	0	0
\$78	\$80	16.40	11.20	6.00	.80	0	0	0	0	0	0	0
\$80	\$82	16.80	11.60	6.40	1.20	0	0	0	0	0	0	0
\$82	\$84	17.20	12.00	6.80	1.60	0	0	0	0	0	0	0
\$84	\$86	17.60	12.40	7.20	2.00	0	0	0	0	0	0	0
\$86	\$88	18.00	12.80	7.60	2.40	0	0	0	0	0	0	0
\$88	\$90	18.40	13.20	8.00	2.90	0	0	0	0	0	0	0
\$90	\$92	18.80	13.60	8.40	3.30	0	0	0	0	0	0	0
\$92	\$94	19.20	14.00	8.90	3.70	0	0	0	0	0	0	0
\$94	\$96	19.60	14.50	9.30	4.10	0	0	0	0	0	0	0
\$96	\$98	20.00	14.90	9.70	4.50	0	0	0	0	0	0	0
\$98	\$100	20.50	15.30	10.10	4.90	0	0	0	0	0	0	0
\$100	\$102	20.90	15.70	10.50	5.30	.10	0	0	0	0	0	0
\$102	\$104	21.30	16.10	10.90	5.70	.50	0	0	0	0	0	0
\$104	\$106	21.70	16.50	11.30	6.10	.90	0	0	0	0	0	0
\$106	\$108	22.10	16.90	11.70	6.50	1.30	0	0	0	0	0	0
\$108	\$110	22.50	17.30	12.10	6.90	1.70	0	0	0	0	0	0
\$110	\$112	22.90	17.70	12.50	7.30	2.10	0	0	0	0	0	0
\$112	\$114	23.30	18.10	12.90	7.70	2.50	0	0	0	0	0	0
\$114	\$116	23.70	18.50	13.30	8.10	2.90	0	0	0	0	0	0
\$116	\$118	24.10	18.90	13.70	8.50	3.30	0	0	0	0	0	0
\$118	\$120	24.70	19.50	14.30	9.10	3.90	0	0	0	0	0	0
\$120	\$124	25.50	20.30	15.10	9.90	4.70	0	0	0	0	0	0
\$124	\$128	26.30	21.10	15.90	10.70	5.60	.40	0	0	0	0	0
\$128	\$132	27.10	21.90	16.80	11.60	6.40	1.20	0	0	0	0	0
\$132	\$136	27.90	22.80	17.60	12.40	7.20	2.00	0	0	0	0	0
\$136	\$140	28.80	23.60	18.40	13.20	8.00	2.80	0	0	0	0	0
\$140	\$144	29.60	24.40	19.20	14.00	8.80	3.60	0	0	0	0	0
\$144	\$148	30.40	25.20	20.00	14.80	9.60	4.40	0	0	0	0	0
\$148	\$152	31.20	26.00	20.80	15.60	10.40	5.20	0	0	0	0	0
\$152	\$156	32.00	26.80	21.60	16.40	11.20	6.00	.80	0	0	0	0
\$156	\$160	32.80	27.60	22.40	17.20	12.00	6.80	1.70	0	0	0	0
\$160	\$164	33.60	28.40	23.20	18.00	12.80	7.70	2.50	0	0	0	0
\$164	\$168	34.40	29.20	24.00	18.80	13.70	8.50	3.30	0	0	0	0
\$168	\$172	35.20	30.00	24.90	19.70	14.50	9.30	4.10	0	0	0	0
\$172	\$176	36.00	30.90	25.70	20.50	15.30	10.10	4.90	0	0	0	0
\$176	\$180	36.90	31.70	26.50	21.30	16.10	10.90	5.70	.50	0	0	0
\$180	\$184	37.70	32.50	27.30	22.10	16.90	11.70	6.50	1.30	0	0	0
\$184	\$188	38.50	33.30	28.10	22.90	17.70	12.50	7.30	2.10	0	0	0
\$188	\$192	39.30	34.10	28.90	23.70	18.50	13.30	8.10	2.90	0	0	0
\$192	\$196	40.10	34.90	29.70	24.50	19.30	14.10	8.90	3.70	0	0	0
\$196	\$200	41.50	36.30	31.10	25.90	20.70	15.60	10.40	5.20	0	0	0
\$200	\$210	43.50	38.30	33.20	28.00	22.80	17.60	12.40	7.20	2.00	0	0
\$210	\$220	45.60	40.40	35.20	30.00	24.80	19.60	14.40	9.20	4.00	0	0
\$220	\$230	47.60	42.40	37.20	32.00	26.80	21.60	16.40	11.20	6.00	.90	0
\$230	\$240	49.60	44.40	39.20	34.00	28.80	23.70	18.50	13.30	8.10	2.90	0
\$240	\$250	51.60	46.40	41.30	36.10	30.90	25.70	20.50	15.30	10.10	4.90	0
\$250	\$260	53.70	48.50	43.30	38.10	32.90	27.70	22.50	17.30	12.10	6.90	1.70
\$260	\$270	55.70	50.50	45.30	40.10	34.90	29.70	24.50	19.30	14.10	9.00	3.80
\$270	\$280	57.70	52.50	47.30	42.10	36.90	31.80	26.60	21.40	16.20	11.00	5.80
\$280	\$290	59.70	54.50	49.40	44.20	39.00	33.80	28.60	23.40	18.20	13.00	7.80
\$290	\$300	62.80	57.60	52.40	47.20	42.00	36.80	31.60	26.40	21.20	16.00	10.90
\$300	\$320	66.80	61.60	56.40	51.20	46.10	40.90	35.70	30.50	25.30	20.10	14.90
\$320	\$340	70.90	65.70	60.50	55.30	50.10	44.90	39.70	34.50	29.30	24.10	19.00
\$340	\$360	74.90	69.70	64.50	59.30	54.20	49.00	43.80	38.60	33.40	28.20	23.00
\$360	\$380	79.00	73.80	68.60	63.40	58.20	53.00	47.80	42.60	37.40	32.20	27.10
\$380	\$400											
\$400 and over-----		20 percent of the excess over \$400 plus—										
		81.00	75.80	70.60	65.40	60.20	55.00	49.80	44.70	39.50	34.30	29.10

“If the payroll period with respect to an employee is semimonthly

And the wages are—		And the number of withholding exemptions claimed is—										
At least	But less than	0	1	2	3	4	5	6	7	8	9	10 or more
The amount of tax to be withheld shall be—												
		20% of wages	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
\$0.....	\$28.....	\$5.90	.20	0	0	0	0	0	0	0	0	0
\$28.....	\$30.....	6.30	.70	0	0	0	0	0	0	0	0	0
\$30.....	\$32.....	6.30	.70	0	0	0	0	0	0	0	0	0
\$32.....	\$34.....	6.70	1.10	0	0	0	0	0	0	0	0	0
\$34.....	\$36.....	7.10	1.50	0	0	0	0	0	0	0	0	0
\$36.....	\$38.....	7.50	1.90	0	0	0	0	0	0	0	0	0
\$38.....	\$40.....	7.90	2.30	0	0	0	0	0	0	0	0	0
\$40.....	\$42.....	8.30	2.70	0	0	0	0	0	0	0	0	0
\$42.....	\$44.....	8.70	3.10	0	0	0	0	0	0	0	0	0
\$44.....	\$46.....	9.10	3.50	0	0	0	0	0	0	0	0	0
\$46.....	\$48.....	9.50	3.90	0	0	0	0	0	0	0	0	0
\$48.....	\$50.....	9.90	4.30	0	0	0	0	0	0	0	0	0
\$50.....	\$52.....	10.30	4.70	0	0	0	0	0	0	0	0	0
\$52.....	\$54.....	10.70	5.10	0	0	0	0	0	0	0	0	0
\$54.....	\$56.....	11.10	5.50	0	0	0	0	0	0	0	0	0
\$56.....	\$58.....	11.50	5.90	.30	0	0	0	0	0	0	0	0
\$58.....	\$60.....	11.90	6.30	.70	0	0	0	0	0	0	0	0
\$60.....	\$62.....	12.40	6.70	1.10	0	0	0	0	0	0	0	0
\$62.....	\$64.....	12.80	7.10	1.50	0	0	0	0	0	0	0	0
\$64.....	\$66.....	13.20	7.50	1.90	0	0	0	0	0	0	0	0
\$66.....	\$68.....	13.60	7.90	2.30	0	0	0	0	0	0	0	0
\$68.....	\$70.....	14.00	8.30	2.70	0	0	0	0	0	0	0	0
\$70.....	\$72.....	14.40	8.80	3.10	0	0	0	0	0	0	0	0
\$72.....	\$74.....	14.80	9.20	3.50	0	0	0	0	0	0	0	0
\$74.....	\$76.....	15.20	9.60	3.90	0	0	0	0	0	0	0	0
\$76.....	\$78.....	15.60	10.00	4.30	0	0	0	0	0	0	0	0
\$78.....	\$80.....	16.00	10.40	4.70	0	0	0	0	0	0	0	0
\$80.....	\$82.....	16.40	10.80	5.20	0	0	0	0	0	0	0	0
\$82.....	\$84.....	16.80	11.20	5.60	0	0	0	0	0	0	0	0
\$84.....	\$86.....	17.20	11.60	6.00	.30	0	0	0	0	0	0	0
\$86.....	\$88.....	17.60	12.00	6.40	.70	0	0	0	0	0	0	0
\$88.....	\$90.....	18.00	12.40	6.80	1.10	0	0	0	0	0	0	0
\$90.....	\$92.....	18.40	12.80	7.20	1.60	0	0	0	0	0	0	0
\$92.....	\$94.....	18.80	13.20	7.60	2.00	0	0	0	0	0	0	0
\$94.....	\$96.....	19.20	13.60	8.00	2.40	0	0	0	0	0	0	0
\$96.....	\$98.....	19.60	14.00	8.40	2.80	0	0	0	0	0	0	0
\$98.....	\$100.....	20.00	14.40	8.80	3.20	0	0	0	0	0	0	0
\$100.....	\$102.....	20.50	14.80	9.20	3.60	0	0	0	0	0	0	0
\$102.....	\$104.....	20.90	15.20	9.60	4.00	0	0	0	0	0	0	0
\$104.....	\$106.....	21.30	15.60	10.00	4.40	0	0	0	0	0	0	0
\$106.....	\$108.....	21.70	16.00	10.40	4.80	0	0	0	0	0	0	0
\$108.....	\$110.....	22.10	16.40	10.80	5.20	0	0	0	0	0	0	0
\$110.....	\$112.....	22.50	16.90	11.20	5.60	0	0	0	0	0	0	0
\$112.....	\$114.....	22.90	17.30	11.60	6.00	.40	0	0	0	0	0	0
\$114.....	\$116.....	23.30	17.70	12.00	6.40	.80	0	0	0	0	0	0
\$116.....	\$118.....	23.70	18.10	12.40	6.80	1.20	0	0	0	0	0	0
\$118.....	\$120.....	24.10	18.50	12.80	7.20	1.60	0	0	0	0	0	0
\$120.....	\$124.....	24.70	19.10	13.50	7.80	2.20	0	0	0	0	0	0
\$124.....	\$128.....	25.60	19.90	14.30	8.60	3.00	0	0	0	0	0	0
\$128.....	\$132.....	26.30	20.70	15.10	9.50	3.80	0	0	0	0	0	0
\$132.....	\$136.....	27.10	21.50	15.90	10.30	4.60	0	0	0	0	0	0
\$136.....	\$140.....	27.90	22.30	16.70	11.10	5.40	0	0	0	0	0	0
\$140.....	\$144.....	28.80	23.10	17.50	11.90	6.30	.60	0	0	0	0	0
\$144.....	\$148.....	29.60	23.90	18.30	12.70	7.10	1.40	0	0	0	0	0
\$148.....	\$152.....	30.40	24.80	19.10	13.50	7.90	2.30	0	0	0	0	0
\$152.....	\$156.....	31.20	25.60	19.90	14.30	8.70	3.10	0	0	0	0	0
\$156.....	\$160.....	32.00	26.40	20.70	15.10	9.50	3.90	0	0	0	0	0
\$160.....	\$164.....	32.80	27.20	21.60	15.90	10.30	4.70	0	0	0	0	0
\$164.....	\$168.....	33.60	28.00	22.40	16.70	11.10	5.50	0	0	0	0	0
\$168.....	\$172.....	34.40	28.80	23.20	17.60	11.90	6.30	.70	0	0	0	0
\$172.....	\$176.....	35.20	29.60	24.00	18.40	12.70	7.10	1.50	0	0	0	0
\$176.....	\$180.....	36.00	30.40	24.80	19.20	13.50	7.90	2.30	0	0	0	0
\$180.....	\$184.....	36.90	31.20	25.60	20.00	14.40	8.70	3.10	0	0	0	0
\$184.....	\$188.....	37.70	32.00	26.40	20.80	15.20	9.50	3.90	0	0	0	0
\$188.....	\$192.....	38.50	32.90	27.20	21.60	16.00	10.40	4.70	0	0	0	0
\$192.....	\$196.....	39.30	33.70	28.00	22.40	16.80	11.20	5.50	0	0	0	0
\$196.....	\$200.....	40.10	34.50	28.80	23.20	17.60	12.00	6.30	.70	0	0	0
\$200.....	\$210.....	41.50	35.90	30.30	24.60	19.00	13.40	7.80	2.10	0	0	0
\$210.....	\$220.....	43.50	37.90	32.30	26.70	21.00	15.40	9.80	4.20	0	0	0
\$220.....	\$230.....	45.60	39.90	34.30	28.70	23.10	17.40	11.80	6.20	.60	0	0
\$230.....	\$240.....	47.60	42.00	36.30	30.70	25.10	19.50	13.80	8.20	2.60	0	0
\$240.....	\$250.....	49.60	44.00	38.40	32.70	27.10	21.50	15.90	10.20	4.60	0	0
\$250.....	\$260.....	51.60	46.00	40.40	34.80	29.10	23.50	17.90	12.30	6.60	1.00	0
\$260.....	\$270.....	53.70	48.00	42.40	36.80	31.20	25.50	19.90	14.30	8.70	3.00	0
\$270.....	\$280.....	55.70	50.10	44.40	38.80	33.20	27.60	21.90	16.30	10.70	5.10	0
\$280.....	\$290.....	57.70	52.10	46.50	40.80	35.20	29.60	24.00	18.30	12.70	7.10	1.50
\$290.....	\$300.....	59.70	54.10	48.50	42.90	37.20	31.60	26.00	20.40	14.70	9.10	3.50
\$300.....	\$320.....	62.80	57.20	51.50	45.90	40.30	34.70	29.00	23.40	17.80	12.20	6.50
\$320.....	\$340.....	66.80	61.20	55.60	50.00	44.30	38.70	33.10	27.50	21.80	16.20	10.60
\$340.....	\$360.....	70.90	65.30	59.60	54.00	48.40	42.80	37.10	31.50	25.90	20.30	14.60
\$360.....	\$380.....	74.90	69.30	63.70	58.10	52.40	46.80	41.20	35.60	29.90	24.30	18.70
\$380.....	\$400.....	79.00	73.40	67.70	62.10	56.50	50.90	45.20	39.60	34.00	28.40	22.70
\$400.....	\$420.....	83.00	77.40	71.80	66.20	60.50	54.90	49.30	43.70	38.00	32.40	26.80
\$420.....	\$440.....	87.10	81.50	75.80	70.20	64.60	59.00	53.30	47.70	42.10	36.50	30.80
\$440.....	\$460.....	91.10	85.50	79.90	74.30	68.60	63.00	57.40	51.80	46.10	40.50	34.90
\$460.....	\$480.....	95.20	89.60	83.90	78.30	72.70	67.10	61.40	55.80	50.20	44.60	38.90
\$480.....	\$500.....	99.20	93.60	88.00	82.40	76.70	71.10	65.50	59.90	54.20	48.60	43.00
\$500 and over.....		20 percent of the excess over \$500 plus—										
		101.30	95.60	90.00	84.40	78.80	73.10	67.50	61.90	56.30	50.60	45.00

"If the payroll period with respect to an employee is monthly

And the wages are—		And the number of withholding exemptions claimed is—										
At least	But less than	0	1	2	3	4	5	6	7	8	9	10 or more
The amount of tax to be withheld shall be—												
\$0	\$56	20% of wages	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
\$56	\$60	\$11.70	.50	0	0	0	0	0	0	0	0	0
\$60	\$64	12.60	1.30	0	0	0	0	0	0	0	0	0
\$64	\$68	13.40	2.10	0	0	0	0	0	0	0	0	0
\$68	\$72	14.20	2.90	0	0	0	0	0	0	0	0	0
\$72	\$76	15.00	3.70	0	0	0	0	0	0	0	0	0
\$76	\$80	15.80	4.50	0	0	0	0	0	0	0	0	0
\$80	\$84	16.60	5.40	0	0	0	0	0	0	0	0	0
\$84	\$88	17.40	6.20	0	0	0	0	0	0	0	0	0
\$88	\$92	18.20	7.00	0	0	0	0	0	0	0	0	0
\$92	\$96	19.00	7.80	0	0	0	0	0	0	0	0	0
\$96	\$100	19.80	8.60	0	0	0	0	0	0	0	0	0
\$100	\$104	20.70	9.40	0	0	0	0	0	0	0	0	0
\$104	\$108	21.50	10.20	0	0	0	0	0	0	0	0	0
\$108	\$112	22.30	11.00	0	0	0	0	0	0	0	0	0
\$112	\$116	23.10	11.80	.60	0	0	0	0	0	0	0	0
\$116	\$120	23.90	12.60	1.40	0	0	0	0	0	0	0	0
\$120	\$124	24.70	13.50	2.20	0	0	0	0	0	0	0	0
\$124	\$128	25.50	14.30	3.00	0	0	0	0	0	0	0	0
\$128	\$132	26.30	15.10	3.80	0	0	0	0	0	0	0	0
\$132	\$136	27.10	15.90	4.60	0	0	0	0	0	0	0	0
\$136	\$140	27.90	16.70	5.40	0	0	0	0	0	0	0	0
\$140	\$144	28.80	17.50	6.30	0	0	0	0	0	0	0	0
\$144	\$148	29.60	18.30	7.10	0	0	0	0	0	0	0	0
\$148	\$152	30.40	19.10	7.90	0	0	0	0	0	0	0	0
\$152	\$156	31.20	19.90	8.70	0	0	0	0	0	0	0	0
\$156	\$160	32.00	20.70	9.50	0	0	0	0	0	0	0	0
\$160	\$164	32.80	21.60	10.30	0	0	0	0	0	0	0	0
\$164	\$168	33.60	22.40	11.10	0	0	0	0	0	0	0	0
\$168	\$172	34.40	23.20	11.90	.70	0	0	0	0	0	0	0
\$172	\$176	35.20	24.00	12.70	1.50	0	0	0	0	0	0	0
\$176	\$180	36.00	24.80	13.50	2.30	0	0	0	0	0	0	0
\$180	\$184	36.90	25.60	14.40	3.10	0	0	0	0	0	0	0
\$184	\$188	37.70	26.40	15.20	3.90	0	0	0	0	0	0	0
\$188	\$192	38.50	27.20	16.00	4.70	0	0	0	0	0	0	0
\$192	\$196	39.30	28.00	16.80	5.50	0	0	0	0	0	0	0
\$196	\$200	40.10	28.80	17.60	6.30	0	0	0	0	0	0	0
\$200	\$204	40.90	29.70	18.40	7.20	0	0	0	0	0	0	0
\$204	\$208	41.70	30.50	19.20	8.00	0	0	0	0	0	0	0
\$208	\$212	42.50	31.30	20.00	8.80	0	0	0	0	0	0	0
\$212	\$216	43.30	32.10	20.80	9.60	0	0	0	0	0	0	0
\$216	\$220	44.10	32.90	21.60	10.40	0	0	0	0	0	0	0
\$220	\$224	45.00	33.70	22.50	11.20	0	0	0	0	0	0	0
\$224	\$228	45.80	34.50	23.30	12.00	.80	0	0	0	0	0	0
\$228	\$232	46.60	35.30	24.10	12.80	1.60	0	0	0	0	0	0
\$232	\$236	47.40	36.10	24.90	13.60	2.40	0	0	0	0	0	0
\$236	\$240	48.20	36.90	25.70	14.40	3.20	0	0	0	0	0	0
\$240	\$248	49.40	38.20	26.90	15.70	4.40	0	0	0	0	0	0
\$248	\$256	51.00	39.80	28.50	17.30	6.00	0	0	0	0	0	0
\$256	\$264	52.70	41.40	30.20	18.90	7.70	0	0	0	0	0	0
\$264	\$272	54.30	43.00	31.80	20.50	9.30	0	0	0	0	0	0
\$272	\$280	55.90	44.60	33.40	22.10	10.90	0	0	0	0	0	0
\$280	\$288	57.50	46.30	35.00	23.80	12.50	1.30	0	0	0	0	0
\$288	\$296	59.10	47.90	36.60	25.40	14.10	2.90	0	0	0	0	0
\$296	\$304	60.80	49.50	38.30	27.00	15.80	4.50	0	0	0	0	0
\$304	\$312	62.40	51.10	39.90	28.60	17.40	6.10	0	0	0	0	0
\$312	\$320	64.00	52.70	41.50	30.20	19.00	7.70	0	0	0	0	0
\$320	\$328	65.60	54.40	43.10	31.90	20.60	9.40	0	0	0	0	0
\$328	\$336	67.20	56.00	44.70	33.50	22.20	11.00	0	0	0	0	0
\$336	\$344	68.90	57.60	46.40	35.10	23.90	12.60	1.40	0	0	0	0
\$344	\$352	70.50	59.20	48.00	36.70	25.50	14.20	3.00	0	0	0	0
\$352	\$360	72.10	60.80	49.60	38.30	27.10	15.80	4.60	0	0	0	0
\$360	\$368	73.70	62.50	51.20	40.00	28.70	17.50	6.20	0	0	0	0
\$368	\$376	75.30	64.10	52.80	41.60	30.30	19.10	7.80	0	0	0	0
\$376	\$384	77.00	65.70	54.50	43.20	32.00	20.70	9.50	0	0	0	0
\$384	\$392	78.60	67.30	56.10	44.80	33.60	22.30	11.10	0	0	0	0
\$392	\$400	80.20	68.90	57.70	46.40	35.20	23.90	12.70	1.40	0	0	0
\$400	\$420	83.00	71.80	60.50	49.30	38.00	26.80	15.50	4.30	0	0	0
\$420	\$440	87.10	75.80	64.60	53.30	42.10	30.80	19.60	8.30	0	0	0
\$440	\$460	91.10	79.90	68.60	57.40	46.10	34.90	23.60	12.40	1.10	0	0
\$460	\$480	95.20	83.90	72.70	61.40	50.20	38.90	27.70	16.40	5.20	0	0
\$480	\$500	99.20	88.00	76.70	65.50	54.20	43.00	31.70	20.50	9.20	0	0
\$500	\$520	103.30	92.00	80.80	69.50	58.30	47.00	35.80	24.50	13.30	2.00	0
\$520	\$540	107.30	96.10	84.80	73.60	62.30	51.10	39.80	28.60	17.30	6.10	0
\$540	\$560	111.40	100.10	88.90	77.60	66.40	55.10	43.90	32.60	21.40	10.10	0
\$560	\$580	115.40	104.20	92.90	81.70	70.40	59.20	47.90	36.70	25.40	14.20	2.90
\$580	\$600	119.50	108.20	97.00	85.70	74.50	63.20	52.00	40.70	29.50	18.20	7.00
\$600	\$640	125.60	114.30	103.10	91.80	80.60	69.30	58.10	46.80	35.60	24.30	13.10
\$640	\$680	133.70	122.40	111.20	99.90	88.70	77.40	66.20	54.90	43.70	32.40	21.20
\$680	\$720	141.80	130.50	119.30	108.00	96.80	85.50	74.30	63.00	51.80	40.50	29.30
\$720	\$760	149.90	138.60	127.40	116.10	104.90	93.60	82.40	71.10	59.90	48.60	37.40
\$760	\$800	158.00	146.70	135.50	124.20	113.00	101.70	90.50	79.20	68.00	56.70	45.50
\$800	\$840	166.10	154.80	143.60	132.30	121.10	109.80	98.60	87.30	76.10	64.80	53.60
\$840	\$880	174.20	162.90	151.70	140.40	129.20	117.90	106.70	95.40	84.20	72.90	61.70
\$880	\$920	182.30	171.00	159.80	148.50	137.30	126.00	114.80	103.50	92.30	81.00	69.80
\$920	\$960	190.40	179.10	167.90	156.60	145.40	134.10	122.90	111.60	100.40	89.10	77.90
\$960	\$1,000	198.50	187.20	176.00	164.70	153.50	142.20	131.00	119.70	108.50	97.20	86.00
\$1,000 and over		20 percent of the excess over \$1,000 plus—										
		202.50	191.30	180.00	168.80	157.50	146.30	135.00	123.80	112.50	101.30	90.00

“If the payroll period with respect to an employee is a daily payroll period or a miscellaneous payroll period

And the wages divided by the number of days in such period are—		And the number of withholding exemptions claimed is—										
		0	1	2	3	4	5	6	7	8	9	10 or more
At least	But less than	The amount of tax to be withheld shall be the following amount multiplied by the number of days in such period—										
\$0	\$2.00	20% of wages	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
\$2.00	\$2.25	\$0.45	.05	0	0	0	0	0	0	0	0	0
\$2.25	\$2.50	.50	.10	0	0	0	0	0	0	0	0	0
\$2.50	\$2.75	.55	.15	0	0	0	0	0	0	0	0	0
\$2.75	\$3.00	.60	.20	0	0	0	0	0	0	0	0	0
\$3.00	\$3.25	.65	.25	0	0	0	0	0	0	0	0	0
\$3.25	\$3.50	.70	.30	0	0	0	0	0	0	0	0	0
\$3.50	\$3.75	.75	.35	0	0	0	0	0	0	0	0	0
\$3.75	\$4.00	.80	.40	.05	0	0	0	0	0	0	0	0
\$4.00	\$4.25	.85	.45	.10	0	0	0	0	0	0	0	0
\$4.25	\$4.50	.90	.50	.15	0	0	0	0	0	0	0	0
\$4.50	\$4.75	.95	.55	.20	0	0	0	0	0	0	0	0
\$4.75	\$5.00	1.00	.60	.25	0	0	0	0	0	0	0	0
\$5.00	\$5.25	1.05	.65	.30	0	0	0	0	0	0	0	0
\$5.25	\$5.50	1.10	.70	.35	0	0	0	0	0	0	0	0
\$5.50	\$5.75	1.15	.75	.40	.05	0	0	0	0	0	0	0
\$5.75	\$6.00	1.20	.80	.45	.10	0	0	0	0	0	0	0
\$6.00	\$6.25	1.25	.85	.50	.15	0	0	0	0	0	0	0
\$6.25	\$6.50	1.30	.90	.55	.20	0	0	0	0	0	0	0
\$6.50	\$6.75	1.35	.95	.60	.25	0	0	0	0	0	0	0
\$6.75	\$7.00	1.40	1.00	.65	.30	0	0	0	0	0	0	0
\$7.00	\$7.25	1.45	1.05	.70	.35	0	0	0	0	0	0	0
\$7.25	\$7.50	1.50	1.10	.75	.40	0	0	0	0	0	0	0
\$7.50	\$7.75	1.55	1.15	.80	.45	.05	0	0	0	0	0	0
\$7.75	\$8.00	1.60	1.20	.85	.50	.10	0	0	0	0	0	0
\$8.00	\$8.25	1.65	1.30	.90	.55	.15	0	0	0	0	0	0
\$8.25	\$8.50	1.70	1.35	.95	.60	.20	0	0	0	0	0	0
\$8.50	\$8.75	1.75	1.40	1.00	.65	.25	0	0	0	0	0	0
\$8.75	\$9.00	1.80	1.45	1.05	.70	.30	0	0	0	0	0	0
\$9.00	\$9.25	1.85	1.50	1.10	.75	.35	0	0	0	0	0	0
\$9.25	\$9.50	1.90	1.55	1.15	.80	.40	.05	0	0	0	0	0
\$9.50	\$9.75	1.95	1.60	1.20	.85	.45	.10	0	0	0	0	0
\$9.75	\$10.00	2.00	1.65	1.25	.90	.50	.15	0	0	0	0	0
\$10.00	\$10.50	2.10	1.70	1.35	.95	.60	.25	0	0	0	0	0
\$10.50	\$11.00	2.20	1.80	1.45	1.05	.70	.35	0	0	0	0	0
\$11.00	\$11.50	2.30	1.90	1.55	1.15	.80	.45	.05	0	0	0	0
\$11.50	\$12.00	2.40	2.00	1.65	1.25	.90	.55	.15	0	0	0	0
\$12.00	\$12.50	2.50	2.10	1.75	1.35	1.00	.65	.25	0	0	0	0
\$12.50	\$13.00	2.60	2.20	1.85	1.45	1.10	.75	.35	0	0	0	0
\$13.00	\$13.50	2.70	2.30	1.95	1.55	1.20	.85	.45	.10	0	0	0
\$13.50	\$14.00	2.80	2.40	2.05	1.65	1.30	.95	.55	.20	0	0	0
\$14.00	\$14.50	2.90	2.50	2.15	1.80	1.40	1.05	.65	.30	0	0	0
\$14.50	\$15.00	3.00	2.60	2.25	1.90	1.50	1.15	.75	.40	.05	0	0
\$15.00	\$15.50	3.10	2.70	2.35	2.00	1.60	1.25	.85	.50	.15	0	0
\$15.50	\$16.00	3.20	2.80	2.45	2.10	1.70	1.35	.95	.60	.25	0	0
\$16.00	\$16.50	3.30	2.90	2.55	2.20	1.80	1.45	1.05	.70	.35	0	0
\$16.50	\$17.00	3.40	3.00	2.65	2.30	1.90	1.55	1.15	.80	.45	.05	0
\$17.00	\$17.50	3.50	3.10	2.75	2.40	2.00	1.65	1.25	.90	.55	.15	0
\$17.50	\$18.00	3.60	3.20	2.85	2.50	2.10	1.75	1.40	1.00	.65	.25	0
\$18.00	\$18.50	3.70	3.35	2.95	2.60	2.20	1.85	1.50	1.10	.75	.35	0
\$18.50	\$19.00	3.80	3.45	3.05	2.70	2.30	1.95	1.60	1.20	.85	.45	.10
\$19.00	\$19.50	3.90	3.55	3.15	2.80	2.40	2.05	1.70	1.30	.95	.55	.20
\$19.50	\$20.00	4.00	3.65	3.25	2.90	2.50	2.15	1.80	1.40	1.05	.65	.30
\$20.00	\$21.00	4.15	3.80	3.40	3.05	2.65	2.30	1.95	1.55	1.20	.80	.45
\$21.00	\$22.00	4.35	4.00	3.60	3.25	2.85	2.50	2.15	1.75	1.40	1.00	.65
\$22.00	\$23.00	4.55	4.20	3.80	3.45	3.10	2.70	2.35	1.95	1.60	1.25	.85
\$23.00	\$24.00	4.75	4.40	4.00	3.65	3.30	2.90	2.55	2.15	1.80	1.45	1.05
\$24.00	\$25.00	4.95	4.60	4.20	3.85	3.50	3.10	2.75	2.35	2.00	1.65	1.25
\$25.00	\$26.00	5.15	4.80	4.40	4.05	3.70	3.30	2.95	2.55	2.20	1.85	1.45
\$26.00	\$27.00	5.35	5.00	4.65	4.25	3.90	3.50	3.15	2.80	2.40	2.05	1.65
\$27.00	\$28.00	5.55	5.20	4.85	4.45	4.10	3.70	3.35	3.00	2.60	2.25	1.85
\$28.00	\$29.00	5.75	5.40	5.05	4.65	4.30	3.90	3.55	3.20	2.80	2.45	2.05
\$29.00	\$30.00	5.95	5.60	5.25	4.85	4.50	4.10	3.75	3.40	3.00	2.65	2.30
\$30 and over		20 percent of the excess over \$30 plus—										
		6.10	5.70	5.35	4.95	4.60	4.25	3.85	3.50	3.10	2.75	2.40 ²²

1 SEC. 201. PERCENTAGE METHOD OF WITHHOLDING.

2 Section 1622 (a) (relating to percentage method of
3 withholding on wages) is hereby amended by inserting before
4 the period at the end thereof the following: “, except that in
5 the case of wages paid on or after November 1, 1951, and
6 before January 1, 1954, the tax shall be equal to 20 per
7 centum of such excess in lieu of 18 per centum”.

8 SEC. 202. WAGE BRACKET WITHHOLDING.

9 So much of section 1622 (c) (1) as precedes the tables
10 in such section is hereby amended to read as follows:

11 “(1) (A) Wages paid after October 31, 1951,
12 and before January 1, 1954.—At the election of
13 the employer with respect to any employee, the
14 employer shall deduct and withhold upon the wages
15 paid to such employee after October 31, 1951, and
16 before January 1, 1954, a tax determined in ac-
17 cordance with the following tables, which shall be
18 in lieu of the tax required to be deducted and with-
19 held under subsection (a):

“If the payroll period with respect to an employee is weekly

And the wages are—		And the number of withholding exemptions claimed is—										
At least	But less than	0	1	2	3	4	5	6	7	8	9	10 or more
The amount of tax to be withheld shall be—												
		20% of wages	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
\$0.....	\$13.....	\$2.70	.10	0	0	0	0	0	0	0	0	0
\$13.....	\$14.....	2.90	.30	0	0	0	0	0	0	0	0	0
\$14.....	\$15.....	3.10	.50	0	0	0	0	0	0	0	0	0
\$15.....	\$16.....	3.30	.70	0	0	0	0	0	0	0	0	0
\$16.....	\$17.....	3.50	.90	0	0	0	0	0	0	0	0	0
\$17.....	\$18.....	3.70	1.10	0	0	0	0	0	0	0	0	0
\$18.....	\$19.....	3.90	1.30	0	0	0	0	0	0	0	0	0
\$19.....	\$20.....	4.10	1.60	0	0	0	0	0	0	0	0	0
\$20.....	\$21.....	4.30	1.70	0	0	0	0	0	0	0	0	0
\$21.....	\$22.....	4.50	1.90	0	0	0	0	0	0	0	0	0
\$22.....	\$23.....	4.70	2.10	0	0	0	0	0	0	0	0	0
\$23.....	\$24.....	4.90	2.30	0	0	0	0	0	0	0	0	0
\$24.....	\$25.....	5.10	2.50	0	0	0	0	0	0	0	0	0
\$25.....	\$26.....	5.30	2.70	.20	0	0	0	0	0	0	0	0
\$26.....	\$27.....	5.50	2.90	.40	0	0	0	0	0	0	0	0
\$27.....	\$28.....	5.70	3.10	.60	0	0	0	0	0	0	0	0
\$28.....	\$29.....	5.90	3.30	.80	0	0	0	0	0	0	0	0
\$29.....	\$30.....	6.10	3.50	1.00	0	0	0	0	0	0	0	0
\$30.....	\$31.....	6.30	3.70	1.20	0	0	0	0	0	0	0	0
\$31.....	\$32.....	6.50	3.90	1.40	0	0	0	0	0	0	0	0
\$32.....	\$33.....	6.70	4.10	1.60	0	0	0	0	0	0	0	0
\$33.....	\$34.....	6.90	4.30	1.80	0	0	0	0	0	0	0	0
\$34.....	\$35.....	7.10	4.50	2.00	0	0	0	0	0	0	0	0
\$35.....	\$36.....	7.30	4.70	2.20	0	0	0	0	0	0	0	0
\$36.....	\$37.....	7.50	4.90	2.40	0	0	0	0	0	0	0	0
\$37.....	\$38.....	7.70	5.10	2.60	0	0	0	0	0	0	0	0
\$38.....	\$39.....	7.90	5.30	2.80	.20	0	0	0	0	0	0	0
\$39.....	\$40.....	8.10	5.50	3.00	.40	0	0	0	0	0	0	0
\$40.....	\$41.....	8.30	5.70	3.20	.60	0	0	0	0	0	0	0
\$41.....	\$42.....	8.50	5.90	3.40	.80	0	0	0	0	0	0	0
\$42.....	\$43.....	8.70	6.10	3.60	1.00	0	0	0	0	0	0	0
\$43.....	\$44.....	8.90	6.30	3.80	1.20	0	0	0	0	0	0	0
\$44.....	\$45.....	9.10	6.50	4.00	1.40	0	0	0	0	0	0	0
\$45.....	\$46.....	9.30	6.70	4.20	1.60	0	0	0	0	0	0	0
\$46.....	\$47.....	9.50	6.90	4.40	1.80	0	0	0	0	0	0	0
\$47.....	\$48.....	9.70	7.10	4.60	2.00	0	0	0	0	0	0	0
\$48.....	\$49.....	9.90	7.30	4.80	2.20	0	0	0	0	0	0	0
\$49.....	\$50.....	10.10	7.50	5.00	2.40	0	0	0	0	0	0	0
\$50.....	\$51.....	10.30	7.70	5.20	2.60	0	0	0	0	0	0	0
\$51.....	\$52.....	10.50	7.90	5.40	2.80	.20	0	0	0	0	0	0
\$52.....	\$53.....	10.70	8.10	5.60	3.00	.40	0	0	0	0	0	0
\$53.....	\$54.....	10.90	8.30	5.80	3.20	.60	0	0	0	0	0	0
\$54.....	\$55.....	11.10	8.50	6.00	3.40	.80	0	0	0	0	0	0
\$55.....	\$56.....	11.30	8.70	6.20	3.60	1.00	0	0	0	0	0	0
\$56.....	\$57.....	11.50	8.90	6.40	3.80	1.20	0	0	0	0	0	0
\$57.....	\$58.....	11.70	9.10	6.60	4.00	1.40	0	0	0	0	0	0
\$58.....	\$59.....	11.90	9.30	6.80	4.20	1.60	0	0	0	0	0	0
\$59.....	\$60.....	12.20	9.60	7.10	4.50	1.90	0	0	0	0	0	0
\$60.....	\$61.....	12.60	10.00	7.50	4.90	2.30	0	0	0	0	0	0
\$61.....	\$62.....	13.00	10.40	7.90	5.30	2.70	.20	0	0	0	0	0
\$62.....	\$63.....	13.40	10.80	8.30	5.70	3.10	.60	0	0	0	0	0
\$63.....	\$64.....	13.80	11.20	8.70	6.10	3.50	1.00	0	0	0	0	0
\$64.....	\$65.....	14.20	11.60	9.10	6.50	3.90	1.40	0	0	0	0	0
\$65.....	\$66.....	14.60	12.00	9.50	6.90	4.30	1.80	0	0	0	0	0
\$66.....	\$67.....	15.00	12.40	9.90	7.30	4.70	2.20	0	0	0	0	0
\$67.....	\$68.....	15.40	12.80	10.30	7.70	5.10	2.60	0	0	0	0	0
\$68.....	\$69.....	15.80	13.20	10.70	8.10	5.50	3.00	.40	0	0	0	0
\$69.....	\$70.....	16.20	13.60	11.10	8.50	5.90	3.40	.80	0	0	0	0
\$70.....	\$71.....	16.60	14.00	11.50	8.90	6.30	3.80	1.20	0	0	0	0
\$71.....	\$72.....	17.00	14.40	11.90	9.30	6.70	4.20	1.60	0	0	0	0
\$72.....	\$73.....	17.40	14.80	12.30	9.70	7.10	4.60	2.00	0	0	0	0
\$73.....	\$74.....	17.80	15.20	12.70	10.10	7.50	5.00	2.40	0	0	0	0
\$74.....	\$75.....	18.20	15.60	13.10	10.50	7.90	5.40	2.80	.30	0	0	0
\$75.....	\$76.....	18.60	16.00	13.50	10.90	8.30	5.80	3.20	.70	0	0	0
\$76.....	\$77.....	19.00	16.40	13.90	11.30	8.70	6.20	3.60	1.10	0	0	0
\$77.....	\$78.....	19.40	16.80	14.30	11.70	9.10	6.60	4.00	1.50	0	0	0
\$78.....	\$79.....	19.80	17.20	14.70	12.10	9.50	7.00	4.40	1.90	0	0	0
\$79.....	\$80.....	20.50	17.90	15.40	12.80	10.20	7.70	5.10	2.60	0	0	0
\$80.....	\$81.....	21.50	18.90	16.40	13.80	11.20	8.70	6.10	3.60	1.00	0	0
\$81.....	\$82.....	22.50	19.90	17.40	14.80	12.20	9.70	7.10	4.60	2.00	0	0
\$82.....	\$83.....	23.50	20.90	18.40	15.80	13.20	10.70	8.10	5.60	3.00	.40	0
\$83.....	\$84.....	24.50	21.90	19.40	16.80	14.20	11.70	9.10	6.60	4.00	1.40	0
\$84.....	\$85.....	25.50	22.90	20.40	17.80	15.20	12.70	10.10	7.60	5.00	2.40	0
\$85.....	\$86.....	26.50	23.90	21.40	18.80	16.20	13.70	11.10	8.60	6.00	3.40	.90
\$86.....	\$87.....	27.50	24.90	22.40	19.80	17.20	14.70	12.10	9.60	7.00	4.40	1.90
\$87.....	\$88.....	28.50	25.90	23.40	20.80	18.20	15.70	13.10	10.60	8.00	5.40	2.90
\$88.....	\$89.....	29.50	26.90	24.40	21.80	19.20	16.70	14.10	11.60	9.00	6.40	3.90
\$89.....	\$90.....	31.00	28.40	25.90	23.30	20.70	18.20	15.60	13.10	10.50	7.90	5.40
\$90.....	\$91.....	33.00	30.40	27.90	25.30	22.70	20.20	17.60	15.10	12.50	9.90	7.40
\$91.....	\$92.....	35.00	32.40	29.90	27.30	24.70	22.20	19.60	17.10	14.50	11.90	9.40
\$92.....	\$93.....	37.00	34.40	31.90	29.30	26.70	24.20	21.60	19.10	16.50	13.90	11.40
\$93.....	\$94.....	39.00	36.40	33.90	31.30	28.70	26.20	23.60	21.10	18.50	15.90	13.40
\$190.....	\$200.....											
\$200 and over.....		20 percent of the excess over \$200 plus—										
		40.00	37.40	34.90	32.30	29.70	27.20	24.60	22.10	19.50	16.90	14.40

"If the payroll period with respect to an employee is biweekly

And the wages are—		And the number of withholding exemptions claimed is—										
At least	But less than	0	1	2	3	4	5	6	7	8	9	10 or more
The amount of tax to be withheld shall be—												
		20% of wages	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
\$0.	\$26	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
\$26	\$28	\$5.40	.30	0	0	0	0	0	0	0	0	0
\$28	\$30	5.80	.70	0	0	0	0	0	0	0	0	0
\$30	\$32	6.20	1.10	0	0	0	0	0	0	0	0	0
\$32	\$34	6.60	1.50	0	0	0	0	0	0	0	0	0
\$34	\$36	7.00	1.90	0	0	0	0	0	0	0	0	0
\$36	\$38	7.40	2.30	0	0	0	0	0	0	0	0	0
\$38	\$40	7.80	2.70	0	0	0	0	0	0	0	0	0
\$40	\$42	8.20	3.10	0	0	0	0	0	0	0	0	0
\$42	\$44	8.60	3.50	0	0	0	0	0	0	0	0	0
\$44	\$46	9.00	3.90	0	0	0	0	0	0	0	0	0
\$46	\$48	9.40	4.30	0	0	0	0	0	0	0	0	0
\$48	\$50	9.80	4.70	0	0	0	0	0	0	0	0	0
\$50	\$52	10.20	5.10	0	0	0	0	0	0	0	0	0
\$52	\$54	10.60	5.50	.30	0	0	0	0	0	0	0	0
\$54	\$56	11.00	5.90	.70	0	0	0	0	0	0	0	0
\$56	\$58	11.40	6.30	1.10	0	0	0	0	0	0	0	0
\$58	\$60	11.80	6.70	1.50	0	0	0	0	0	0	0	0
\$60	\$62	12.20	7.10	1.90	0	0	0	0	0	0	0	0
\$62	\$64	12.60	7.50	2.30	0	0	0	0	0	0	0	0
\$64	\$66	13.00	7.90	2.70	0	0	0	0	0	0	0	0
\$66	\$68	13.40	8.30	3.10	0	0	0	0	0	0	0	0
\$68	\$70	13.80	8.70	3.50	0	0	0	0	0	0	0	0
\$70	\$72	14.20	9.10	3.90	0	0	0	0	0	0	0	0
\$72	\$74	14.60	9.50	4.30	0	0	0	0	0	0	0	0
\$74	\$76	15.00	9.90	4.70	0	0	0	0	0	0	0	0
\$76	\$78	15.40	10.30	5.10	0	0	0	0	0	0	0	0
\$78	\$80	15.80	10.70	5.50	.40	0	0	0	0	0	0	0
\$80	\$82	16.20	11.10	5.90	.80	0	0	0	0	0	0	0
\$82	\$84	16.60	11.50	6.30	1.20	0	0	0	0	0	0	0
\$84	\$86	17.00	11.90	6.70	1.60	0	0	0	0	0	0	0
\$86	\$88	17.40	12.30	7.10	2.00	0	0	0	0	0	0	0
\$88	\$90	17.80	12.70	7.50	2.40	0	0	0	0	0	0	0
\$90	\$92	18.20	13.10	7.90	2.80	0	0	0	0	0	0	0
\$92	\$94	18.60	13.50	8.30	3.20	0	0	0	0	0	0	0
\$94	\$96	19.00	13.90	8.70	3.60	0	0	0	0	0	0	0
\$96	\$98	19.40	14.30	9.10	4.00	0	0	0	0	0	0	0
\$98	\$100	19.80	14.70	9.50	4.40	0	0	0	0	0	0	0
\$100	\$102	20.20	15.10	9.90	4.80	0	0	0	0	0	0	0
\$102	\$104	20.60	15.50	10.30	5.20	.10	0	0	0	0	0	0
\$104	\$106	21.00	15.90	10.70	5.60	.50	0	0	0	0	0	0
\$106	\$108	21.40	16.30	11.10	6.00	.90	0	0	0	0	0	0
\$108	\$110	21.80	16.70	11.50	6.40	1.30	0	0	0	0	0	0
\$110	\$112	22.20	17.10	11.90	6.80	1.70	0	0	0	0	0	0
\$112	\$114	22.60	17.50	12.30	7.20	2.10	0	0	0	0	0	0
\$114	\$116	23.00	17.90	12.70	7.60	2.50	0	0	0	0	0	0
\$116	\$118	23.40	18.30	13.10	8.00	2.90	0	0	0	0	0	0
\$118	\$120	23.80	18.70	13.50	8.40	3.30	0	0	0	0	0	0
\$120	\$124	24.40	19.30	14.10	9.00	3.90	0	0	0	0	0	0
\$124	\$128	25.00	20.10	14.90	9.80	4.70	0	0	0	0	0	0
\$128	\$132	26.00	20.90	15.70	10.60	5.50	.40	0	0	0	0	0
\$132	\$136	26.80	21.70	16.50	11.40	6.30	1.20	0	0	0	0	0
\$136	\$140	27.60	22.50	17.30	12.20	7.10	2.00	0	0	0	0	0
\$140	\$144	28.40	23.30	18.10	13.00	7.90	2.80	0	0	0	0	0
\$144	\$148	29.20	24.10	18.90	13.80	8.70	3.60	0	0	0	0	0
\$148	\$152	30.00	24.90	19.70	14.60	9.50	4.40	0	0	0	0	0
\$152	\$156	30.80	25.70	20.50	15.40	10.30	5.20	0	0	0	0	0
\$156	\$160	31.60	26.50	21.30	16.20	11.10	6.00	.80	0	0	0	0
\$160	\$164	32.40	27.30	22.10	17.00	11.90	6.80	1.60	0	0	0	0
\$164	\$168	33.20	28.10	22.90	17.80	12.70	7.60	2.40	0	0	0	0
\$168	\$172	34.00	28.90	23.70	18.60	13.50	8.40	3.20	0	0	0	0
\$172	\$176	34.80	29.70	24.50	19.40	14.30	9.20	4.00	0	0	0	0
\$176	\$180	35.60	30.50	25.30	20.20	15.10	10.00	4.80	0	0	0	0
\$180	\$184	36.40	31.30	26.10	21.00	15.90	10.80	5.60	.50	0	0	0
\$184	\$188	37.20	32.10	26.90	21.80	16.70	11.60	6.40	1.30	0	0	0
\$188	\$192	38.00	32.90	27.70	22.60	17.50	12.40	7.20	2.10	0	0	0
\$192	\$196	38.80	33.70	28.50	23.40	18.30	13.20	8.00	2.90	0	0	0
\$196	\$200	39.60	34.50	29.30	24.20	19.10	14.00	8.80	3.70	0	0	0
\$200	\$210	41.00	35.90	30.70	25.60	20.50	15.40	10.20	5.10	0	0	0
\$210	\$220	43.00	37.90	32.70	27.60	22.50	17.40	12.20	7.10	2.00	0	0
\$220	\$230	45.00	39.90	34.70	29.60	24.50	19.40	14.20	9.10	4.00	0	0
\$230	\$240	47.00	41.90	36.70	31.60	26.50	21.40	16.20	11.10	6.00	.80	0
\$240	\$250	49.00	43.90	38.70	33.60	28.50	23.40	18.20	13.10	8.00	2.80	0
\$250	\$260	51.00	45.90	40.70	35.60	30.50	25.40	20.20	15.10	10.00	4.80	0
\$260	\$270	53.00	47.90	42.70	37.60	32.50	27.40	22.20	17.10	12.00	6.80	1.70
\$270	\$280	55.00	49.90	44.70	39.60	34.50	29.40	24.20	19.10	14.00	8.80	3.70
\$280	\$290	57.00	51.90	46.70	41.60	36.50	31.40	26.20	21.10	16.00	10.80	5.70
\$290	\$300	59.00	53.90	48.70	43.60	38.50	33.40	28.20	23.10	18.00	12.80	7.70
\$300	\$320	62.00	56.90	51.70	46.60	41.50	36.40	31.20	26.10	21.00	15.80	10.70
\$320	\$340	66.00	60.90	55.70	50.60	45.50	40.40	35.20	30.10	25.00	19.80	14.70
\$340	\$360	70.00	64.90	59.70	54.60	49.50	44.40	39.20	34.10	29.00	23.80	18.70
\$360	\$380	74.00	68.90	63.70	58.60	53.50	48.40	43.20	38.10	33.00	27.80	22.70
\$380	\$400	78.00	72.90	67.70	62.60	57.50	52.40	47.20	42.10	37.00	31.80	26.70
\$400 and over-----		20 percent of the excess over \$400 plus—										
		80.00	74.90	69.70	64.60	59.50	54.40	49.20	44.10	39.00	33.80	28.70

“If the payroll period with respect to an employee is semimonthly

And the wages are—		And the number of withholding exemptions claimed is—										
At least	But less than	0	1	2	3	4	5	6	7	8	9	10 or more
The amount of tax to be withheld shall be—												
\$0	\$28	20% of wages \$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
\$28	\$30	\$5.80	.20	0	0	0	0	0	0	0	0	0
\$30	\$32	6.20	.60	0	0	0	0	0	0	0	0	0
\$32	\$34	6.60	1.00	0	0	0	0	0	0	0	0	0
\$34	\$36	7.00	1.40	0	0	0	0	0	0	0	0	0
\$36	\$38	7.40	1.80	0	0	0	0	0	0	0	0	0
\$38	\$40	7.80	2.20	0	0	0	0	0	0	0	0	0
\$40	\$42	8.20	2.60	0	0	0	0	0	0	0	0	0
\$42	\$44	8.60	3.00	0	0	0	0	0	0	0	0	0
\$44	\$46	9.00	3.40	0	0	0	0	0	0	0	0	0
\$46	\$48	9.40	3.80	0	0	0	0	0	0	0	0	0
\$48	\$50	9.80	4.20	0	0	0	0	0	0	0	0	0
\$50	\$52	10.20	4.60	0	0	0	0	0	0	0	0	0
\$52	\$54	10.60	5.00	0	0	0	0	0	0	0	0	0
\$54	\$56	11.00	5.40	0	0	0	0	0	0	0	0	0
\$56	\$58	11.40	5.80	.30	0	0	0	0	0	0	0	0
\$58	\$60	11.80	6.20	.70	0	0	0	0	0	0	0	0
\$60	\$62	12.20	6.60	1.10	0	0	0	0	0	0	0	0
\$62	\$64	12.60	7.00	1.50	0	0	0	0	0	0	0	0
\$64	\$66	13.00	7.40	1.90	0	0	0	0	0	0	0	0
\$66	\$68	13.40	7.80	2.30	0	0	0	0	0	0	0	0
\$68	\$70	13.80	8.20	2.70	0	0	0	0	0	0	0	0
\$70	\$72	14.20	8.60	3.10	0	0	0	0	0	0	0	0
\$72	\$74	14.60	9.00	3.50	0	0	0	0	0	0	0	0
\$74	\$76	15.00	9.40	3.90	0	0	0	0	0	0	0	0
\$76	\$78	15.40	9.80	4.30	0	0	0	0	0	0	0	0
\$78	\$80	15.80	10.20	4.70	0	0	0	0	0	0	0	0
\$80	\$82	16.20	10.60	5.10	0	0	0	0	0	0	0	0
\$82	\$84	16.60	11.00	5.50	0	0	0	0	0	0	0	0
\$84	\$86	17.00	11.40	5.90	.30	0	0	0	0	0	0	0
\$86	\$88	17.40	11.80	6.30	.70	0	0	0	0	0	0	0
\$88	\$90	17.80	12.20	6.70	1.10	0	0	0	0	0	0	0
\$90	\$92	18.20	12.60	7.10	1.50	0	0	0	0	0	0	0
\$92	\$94	18.60	13.00	7.50	1.90	0	0	0	0	0	0	0
\$94	\$96	19.00	13.40	7.90	2.30	0	0	0	0	0	0	0
\$96	\$98	19.40	13.80	8.30	2.70	0	0	0	0	0	0	0
\$98	\$100	19.80	14.20	8.70	3.10	0	0	0	0	0	0	0
\$100	\$102	20.20	14.60	9.10	3.50	0	0	0	0	0	0	0
\$102	\$104	20.60	15.00	9.50	3.90	0	0	0	0	0	0	0
\$104	\$106	21.00	15.40	9.90	4.30	0	0	0	0	0	0	0
\$106	\$108	21.40	15.80	10.30	4.70	0	0	0	0	0	0	0
\$108	\$110	21.80	16.20	10.70	5.10	0	0	0	0	0	0	0
\$110	\$112	22.20	16.60	11.10	5.50	0	0	0	0	0	0	0
\$112	\$114	22.60	17.00	11.50	5.90	.40	0	0	0	0	0	0
\$114	\$116	23.00	17.40	11.90	6.30	.80	0	0	0	0	0	0
\$116	\$118	23.40	17.80	12.30	6.70	1.20	0	0	0	0	0	0
\$118	\$120	23.80	18.20	12.70	7.10	1.60	0	0	0	0	0	0
\$120	\$124	24.40	18.80	13.30	7.70	2.20	0	0	0	0	0	0
\$124	\$128	25.20	19.60	14.1	8.50	3.00	0	0	0	0	0	0
\$128	\$132	26.00	20.40	14.90	9.30	3.80	0	0	0	0	0	0
\$132	\$136	26.80	21.20	15.70	10.10	4.60	0	0	0	0	0	0
\$136	\$140	27.60	22.00	16.50	10.90	5.40	0	0	0	0	0	0
\$140	\$144	28.40	22.80	17.30	11.70	6.20	.60	0	0	0	0	0
\$144	\$148	29.20	23.60	18.10	12.50	7.00	1.40	0	0	0	0	0
\$148	\$152	30.00	24.40	18.90	13.30	7.80	2.20	0	0	0	0	0
\$152	\$156	30.80	25.20	19.70	14.10	8.60	3.00	0	0	0	0	0
\$156	\$160	31.60	26.00	20.50	14.90	9.40	3.80	0	0	0	0	0
\$160	\$164	32.40	26.80	21.30	15.70	10.20	4.60	0	0	0	0	0
\$164	\$168	33.20	27.60	22.10	16.50	11.00	5.40	0	0	0	0	0
\$168	\$172	34.00	28.40	22.90	17.30	11.80	6.20	.70	0	0	0	0
\$172	\$176	34.80	29.20	23.70	18.10	12.60	7.00	1.50	0	0	0	0
\$176	\$180	35.60	30.00	24.50	18.90	13.40	7.80	2.30	0	0	0	0
\$180	\$184	36.40	30.80	25.30	19.70	14.20	8.60	3.10	0	0	0	0
\$184	\$188	37.20	31.60	26.10	20.50	15.00	9.40	3.90	0	0	0	0
\$188	\$192	38.00	32.40	26.90	21.30	15.80	10.20	4.70	0	0	0	0
\$192	\$196	38.80	33.20	27.70	22.10	16.60	11.00	5.50	0	0	0	0
\$196	\$200	39.60	34.00	28.50	22.90	17.40	11.80	6.30	.70	0	0	0
\$200	\$210	41.00	35.40	29.90	24.30	18.80	13.20	7.70	2.10	0	0	0
\$210	\$220	43.00	37.40	31.90	26.30	20.80	15.20	9.70	4.10	0	0	0
\$220	\$230	45.00	39.40	33.90	28.30	22.80	17.20	11.70	6.10	.60	0	0
\$230	\$240	47.00	41.40	35.90	30.30	24.80	19.20	13.70	8.10	2.60	0	0
\$240	\$250	49.00	43.40	37.90	32.30	26.80	21.20	15.70	10.10	4.60	0	0
\$250	\$260	51.00	45.40	39.90	34.30	28.80	23.20	17.70	12.10	6.60	1.00	0
\$260	\$270	53.00	47.40	41.90	36.30	30.80	25.20	19.70	14.10	8.60	3.00	0
\$270	\$280	55.00	49.40	43.90	38.30	32.80	27.20	21.70	16.10	10.60	5.00	0
\$280	\$290	57.00	51.40	45.90	40.30	34.80	29.20	23.70	18.10	12.60	7.00	1.40
\$290	\$300	59.00	53.40	47.90	42.30	36.80	31.20	25.70	20.10	14.60	9.00	3.40
\$300	\$320	62.00	56.40	50.90	45.30	39.80	34.20	28.70	23.10	17.60	12.00	6.40
\$320	\$340	66.00	60.40	54.90	49.30	43.80	38.20	32.70	27.10	21.60	16.00	10.40
\$340	\$360	70.00	64.40	58.90	53.30	47.80	42.20	36.70	31.10	25.60	20.00	14.40
\$360	\$380	74.00	68.40	62.90	57.30	51.80	46.20	40.70	35.10	29.66	24.00	18.40
\$380	\$400	78.00	72.40	66.90	61.30	55.80	50.20	44.70	39.10	33.60	28.00	22.40
\$400	\$420	82.00	76.40	70.90	65.30	59.80	54.20	48.70	43.16	37.60	32.00	26.40
\$420	\$440	86.00	80.40	74.90	69.30	63.80	58.20	52.70	47.10	41.60	36.00	30.40
\$440	\$460	90.00	84.40	78.90	73.30	67.80	62.20	56.70	51.10	45.60	40.00	34.40
\$460	\$480	94.00	88.40	82.90	77.30	71.80	66.20	60.70	55.10	49.60	44.00	38.40
\$480	\$500	98.00	92.40	86.90	81.30	75.80	70.20	64.70	59.10	53.60	48.00	42.40
\$500 and over		20 percent of the excess over \$500 plus—										
		100.00	94.40	88.90	83.30	77.80	72.20	66.70	61.10	55.60	50.00	44.40

“If the payroll period with respect to an employee is monthly

And the wages are—		And the number of withholding exemptions claimed is—										
		0	1	2	3	4	5	6	7	8	9	10 or more
At least—	But less than—	The amount of tax to be withheld shall be—										
\$0	\$56	20% of wages	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
\$56	\$60	\$11.60	.50	0	0	0	0	0	0	0	0	0
\$60	\$64	12.40	1.30	0	0	0	0	0	0	0	0	0
\$64	\$68	13.20	2.10	0	0	0	0	0	0	0	0	0
\$68	\$72	14.00	2.90	0	0	0	0	0	0	0	0	0
\$72	\$76	14.80	3.70	0	0	0	0	0	0	0	0	0
\$76	\$80	15.60	4.50	0	0	0	0	0	0	0	0	0
\$80	\$84	16.40	5.30	0	0	0	0	0	0	0	0	0
\$84	\$88	17.20	6.10	0	0	0	0	0	0	0	0	0
\$88	\$92	18.00	6.90	0	0	0	0	0	0	0	0	0
\$92	\$96	18.80	7.70	0	0	0	0	0	0	0	0	0
\$96	\$100	19.60	8.50	0	0	0	0	0	0	0	0	0
\$100	\$104	20.40	9.30	0	0	0	0	0	0	0	0	0
\$104	\$108	21.20	10.10	0	0	0	0	0	0	0	0	0
\$108	\$112	22.00	10.90	0	0	0	0	0	0	0	0	0
\$112	\$116	22.80	11.70	.60	0	0	0	0	0	0	0	0
\$116	\$120	23.60	12.50	1.40	0	0	0	0	0	0	0	0
\$120	\$124	24.40	13.30	2.20	0	0	0	0	0	0	0	0
\$124	\$128	25.20	14.10	3.00	0	0	0	0	0	0	0	0
\$128	\$132	26.00	14.90	3.80	0	0	0	0	0	0	0	0
\$132	\$136	26.80	15.70	4.60	0	0	0	0	0	0	0	0
\$136	\$140	27.60	16.50	5.40	0	0	0	0	0	0	0	0
\$140	\$144	28.40	17.30	6.20	0	0	0	0	0	0	0	0
\$144	\$148	29.20	18.10	7.00	0	0	0	0	0	0	0	0
\$148	\$152	30.00	18.90	7.80	0	0	0	0	0	0	0	0
\$152	\$156	30.80	19.70	8.60	0	0	0	0	0	0	0	0
\$156	\$160	31.60	20.50	9.40	0	0	0	0	0	0	0	0
\$160	\$164	32.40	21.30	10.20	0	0	0	0	0	0	0	0
\$164	\$168	33.20	22.10	11.00	0	0	0	0	0	0	0	0
\$168	\$172	34.00	22.90	11.80	.70	0	0	0	0	0	0	0
\$172	\$176	34.80	23.70	12.60	1.50	0	0	0	0	0	0	0
\$176	\$180	35.60	24.50	13.40	2.30	0	0	0	0	0	0	0
\$180	\$184	36.40	25.30	14.20	3.10	0	0	0	0	0	0	0
\$184	\$188	37.20	26.10	15.00	3.90	0	0	0	0	0	0	0
\$188	\$192	38.00	26.90	15.80	4.70	0	0	0	0	0	0	0
\$192	\$196	38.80	27.70	16.60	5.50	0	0	0	0	0	0	0
\$196	\$200	39.60	28.50	17.40	6.30	0	0	0	0	0	0	0
\$200	\$204	40.40	29.30	18.20	7.10	0	0	0	0	0	0	0
\$204	\$208	41.20	30.10	19.00	7.90	0	0	0	0	0	0	0
\$208	\$212	42.00	30.90	19.80	8.70	0	0	0	0	0	0	0
\$212	\$216	42.80	31.70	20.60	9.50	0	0	0	0	0	0	0
\$216	\$220	43.60	32.50	21.40	10.30	0	0	0	0	0	0	0
\$220	\$224	44.40	33.30	22.20	11.10	0	0	0	0	0	0	0
\$224	\$228	45.20	34.10	23.00	11.90	.80	0	0	0	0	0	0
\$228	\$232	46.00	34.90	23.80	12.70	1.60	0	0	0	0	0	0
\$232	\$236	46.80	35.70	24.60	13.50	2.40	0	0	0	0	0	0
\$236	\$240	47.60	36.50	25.40	14.30	3.20	0	0	0	0	0	0
\$240	\$248	48.80	37.70	26.60	15.60	4.40	0	0	0	0	0	0
\$248	\$256	50.40	39.30	28.20	17.10	6.00	0	0	0	0	0	0
\$256	\$264	52.00	40.90	29.80	18.70	7.60	0	0	0	0	0	0
\$264	\$272	53.60	42.50	31.40	20.30	9.20	0	0	0	0	0	0
\$272	\$280	55.20	44.10	33.00	21.90	10.80	0	0	0	0	0	0
\$280	\$288	56.80	45.70	34.60	23.50	12.40	1.20	0	0	0	0	0
\$288	\$296	58.40	47.30	36.20	25.10	14.00	2.80	0	0	0	0	0
\$296	\$304	60.00	48.90	37.80	26.70	15.60	4.40	0	0	0	0	0
\$304	\$312	61.60	50.50	39.40	28.30	17.20	6.00	0	0	0	0	0
\$312	\$320	63.20	52.10	41.00	29.90	18.80	7.60	0	0	0	0	0
\$320	\$328	64.80	53.70	42.60	31.50	20.40	9.20	0	0	0	0	0
\$328	\$336	66.40	55.30	44.20	33.10	22.00	10.80	0	0	0	0	0
\$336	\$344	68.00	56.90	45.80	34.70	23.60	12.40	1.30	0	0	0	0
\$344	\$352	69.60	58.50	47.40	36.30	25.20	14.00	2.90	0	0	0	0
\$352	\$360	71.20	60.10	49.00	37.90	26.80	15.60	4.50	0	0	0	0
\$360	\$368	72.80	61.70	50.60	39.50	28.40	17.20	6.10	0	0	0	0
\$368	\$376	74.40	63.30	52.20	41.10	30.00	18.80	7.70	0	0	0	0
\$376	\$384	76.00	64.90	53.80	42.70	31.60	20.40	9.30	0	0	0	0
\$384	\$392	77.60	66.50	55.40	44.30	33.20	22.00	10.90	0	0	0	0
\$392	\$400	79.20	68.10	57.00	45.90	34.80	23.60	12.50	1.40	0	0	0
\$400	\$420	82.00	70.90	59.80	48.70	37.60	26.40	15.30	4.20	0	0	0
\$420	\$440	86.00	74.90	63.80	52.70	41.60	30.40	19.30	8.20	0	0	0
\$440	\$460	90.00	78.90	67.80	56.70	45.60	34.40	23.30	12.20	1.10	0	0
\$460	\$480	94.00	82.90	71.80	60.70	49.60	38.40	27.30	16.20	5.10	0	0
\$480	\$500	98.00	86.90	75.80	64.70	53.60	42.40	31.30	20.20	9.10	0	0
\$500	\$520	102.00	90.90	79.80	68.70	57.60	46.40	35.30	24.20	13.10	2.00	0
\$520	\$540	106.00	94.90	83.80	72.70	61.60	50.40	39.30	28.20	17.10	6.00	0
\$540	\$560	110.00	98.90	87.80	76.70	65.60	54.40	43.30	32.20	21.10	10.00	0
\$560	\$580	114.00	102.90	91.80	80.70	69.60	58.40	47.30	36.20	25.10	14.00	2.90
\$580	\$600	118.00	106.90	95.80	84.70	73.60	62.40	51.30	40.20	29.10	18.00	6.90
\$600	\$640	124.00	112.00	101.80	90.70	79.60	68.40	57.30	46.20	35.10	24.00	12.90
\$640	\$680	132.00	120.90	109.80	98.70	87.60	76.40	65.30	54.20	43.10	32.00	20.90
\$680	\$720	140.00	128.90	117.80	106.70	95.60	84.40	73.30	62.20	51.10	40.00	28.90
\$720	\$760	148.00	136.90	125.80	114.70	103.60	92.40	81.30	70.20	59.10	48.00	36.90
\$760	\$800	156.00	144.90	133.80	122.70	111.60	100.40	89.30	78.20	67.10	56.00	44.90
\$800	\$840	164.00	152.90	141.80	130.70	119.60	108.40	97.30	86.20	75.10	64.00	52.90
\$840	\$880	172.00	160.90	149.80	138.70	127.60	116.40	105.30	94.20	83.10	72.00	60.90
\$880	\$920	180.00	168.90	157.80	146.70	135.60	124.40	113.30	102.20	91.10	80.00	68.90
\$920	\$960	188.00	176.90	165.80	154.70	143.60	132.40	121.30	110.20	99.10	88.00	76.90
\$960	\$1,000	196.00	184.90	173.80	162.70	151.60	140.40	129.30	118.20	107.10	96.00	84.90
\$1,000 and over		20 percent of the excess over \$1,000 plus—										
		200.00	188.99	177.80	166.70	155.60	144.40	133.30	122.20	111.10	100.00	88.90

“If the payroll period with respect to an employee is a daily payroll period or a miscellaneous payroll period

And the wages divided by the number of days in such period are—		And the number of withholding exemptions claimed is—										
		0	1	2	3	4	5	6	7	8	9	10 or more
At least—	But less than—	The amount of tax to be withheld shall be the following amount multiplied by the number of days in such period—										
\$0	\$2.00	80% of wages	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
\$2.00	\$2.25	\$0.40	.05	0	0	0	0	0	0	0	0	0
\$2.25	\$2.50	.45	.10	0	0	0	0	0	0	0	0	0
\$2.50	\$2.75	.50	.15	0	0	0	0	0	0	0	0	0
\$2.75	\$3.00	.55	.20	0	0	0	0	0	0	0	0	0
\$3.00	\$3.25	.60	.25	0	0	0	0	0	0	0	0	0
\$3.25	\$3.50	.65	.30	0	0	0	0	0	0	0	0	0
\$3.50	\$3.75	.70	.35	0	0	0	0	0	0	0	0	0
\$3.75	\$4.00	.75	.40	.05	0	0	0	0	0	0	0	0
\$4.00	\$4.25	.80	.45	.10	0	0	0	0	0	0	0	0
\$4.25	\$4.50	.85	.50	.15	0	0	0	0	0	0	0	0
\$4.50	\$4.75	.90	.55	.20	0	0	0	0	0	0	0	0
\$4.75	\$5.00	.95	.60	.25	0	0	0	0	0	0	0	0
\$5.00	\$5.25	1.00	.65	.30	0	0	0	0	0	0	0	0
\$5.25	\$5.50	1.05	.70	.35	0	0	0	0	0	0	0	0
\$5.50	\$5.75	1.10	.75	.40	.05	0	0	0	0	0	0	0
\$5.75	\$6.00	1.15	.80	.45	.10	0	0	0	0	0	0	0
\$6.00	\$6.25	1.20	.85	.50	.15	0	0	0	0	0	0	0
\$6.25	\$6.50	1.25	.90	.55	.20	0	0	0	0	0	0	0
\$6.50	\$6.75	1.30	.95	.60	.25	0	0	0	0	0	0	0
\$6.75	\$7.00	1.35	1.00	.65	.30	0	0	0	0	0	0	0
\$7.00	\$7.25	1.40	1.05	.70	.35	0	0	0	0	0	0	0
\$7.25	\$7.50	1.45	1.10	.75	.40	0	0	0	0	0	0	0
\$7.50	\$7.75	1.50	1.15	.80	.45	.05	0	0	0	0	0	0
\$7.75	\$8.00	1.55	1.20	.85	.50	.10	0	0	0	0	0	0
\$8.00	\$8.25	1.60	1.25	.90	.55	.15	0	0	0	0	0	0
\$8.25	\$8.50	1.65	1.30	.95	.60	.20	0	0	0	0	0	0
\$8.50	\$8.75	1.70	1.35	1.00	.65	.25	0	0	0	0	0	0
\$8.75	\$9.00	1.75	1.40	1.05	.70	.30	0	0	0	0	0	0
\$9.00	\$9.25	1.80	1.45	1.10	.75	.35	0	0	0	0	0	0
\$9.25	\$9.50	1.85	1.50	1.15	.80	.40	.05	0	0	0	0	0
\$9.50	\$9.75	1.90	1.55	1.20	.85	.45	.10	0	0	0	0	0
\$9.75	\$10.00	1.95	1.60	1.25	.90	.50	.15	0	0	0	0	0
\$10.00	\$10.50	2.05	1.70	1.30	.95	.60	.20	0	0	0	0	0
\$10.50	\$11.00	2.15	1.80	1.40	1.05	.70	.30	0	0	0	0	0
\$11.00	\$11.50	2.25	1.90	1.50	1.15	.80	.40	.05	0	0	0	0
\$11.50	\$12.00	2.35	2.00	1.60	1.25	.90	.50	.15	0	0	0	0
\$12.00	\$12.50	2.45	2.10	1.70	1.35	1.00	.60	.25	0	0	0	0
\$12.50	\$13.00	2.55	2.20	1.80	1.45	1.10	.70	.35	0	0	0	0
\$13.00	\$13.50	2.65	2.30	1.90	1.55	1.20	.80	.45	.10	0	0	0
\$13.50	\$14.00	2.75	2.40	2.00	1.65	1.30	.90	.55	.20	0	0	0
\$14.00	\$14.50	2.85	2.50	2.10	1.75	1.40	1.00	.65	.30	0	0	0
\$14.50	\$15.00	2.95	2.60	2.20	1.85	1.50	1.10	.75	.40	.05	0	0
\$15.00	\$15.50	3.05	2.70	2.30	1.95	1.60	1.20	.85	.50	.15	0	0
\$15.50	\$16.00	3.15	2.80	2.40	2.05	1.70	1.30	.95	.60	.25	0	0
\$16.00	\$16.50	3.25	2.90	2.50	2.15	1.80	1.40	1.05	.70	.35	0	0
\$16.50	\$17.00	3.35	3.00	2.60	2.25	1.90	1.50	1.15	.80	.45	.05	0
\$17.00	\$17.50	3.45	3.10	2.70	2.35	2.00	1.60	1.25	.90	.55	.15	0
\$17.50	\$18.00	3.55	3.20	2.80	2.45	2.10	1.70	1.35	1.00	.65	.25	0
\$18.00	\$18.50	3.65	3.30	2.90	2.55	2.20	1.80	1.45	1.10	.75	.35	0
\$18.50	\$19.00	3.75	3.40	3.00	2.65	2.30	1.90	1.55	1.20	.85	.45	.10
\$19.00	\$19.50	3.85	3.50	3.10	2.75	2.40	2.00	1.65	1.30	.95	.55	.20
\$19.50	\$20.00	3.95	3.60	3.20	2.85	2.50	2.10	1.75	1.40	1.05	.65	.30
\$20.00	\$21.00	4.10	3.75	3.35	3.00	2.65	2.25	1.90	1.55	1.20	.80	.45
\$21.00	\$22.00	4.30	3.95	3.55	3.20	2.85	2.45	2.10	1.75	1.40	1.00	.65
\$22.00	\$23.00	4.50	4.15	3.75	3.40	3.05	2.65	2.30	1.95	1.60	1.20	.85
\$23.00	\$24.00	4.70	4.35	3.95	3.60	3.25	2.85	2.50	2.15	1.80	1.40	1.05
\$24.00	\$25.00	4.90	4.55	4.15	3.80	3.45	3.05	2.70	2.35	2.00	1.60	1.25
\$25.00	\$26.00	5.10	4.75	4.35	4.00	3.65	3.25	2.90	2.55	2.20	1.80	1.45
\$26.00	\$27.00	5.30	4.95	4.55	4.20	3.85	3.45	3.10	2.75	2.40	2.00	1.65
\$27.00	\$28.00	5.50	5.15	4.75	4.40	4.05	3.65	3.30	2.95	2.60	2.20	1.85
\$28.00	\$29.00	5.70	5.35	4.95	4.60	4.25	3.85	3.50	3.15	2.80	2.40	2.05
\$29.00	\$30.00	5.90	5.55	5.15	4.80	4.45	4.05	3.70	3.35	3.00	2.60	2.25
\$30 and over		20 percent of the excess over \$30 plus—										
		6.00	5.65	5.25	4.90	4.55	4.15	3.80	3.45	3.10	2.70	2.35

1 “(B) Wages paid after December 31, 1953.—

2 At the election of the employer with respect to any

3 employee, the employer shall deduct and withhold

4 upon the wages paid to such employee after Decem-

ber 31, 1953, a tax determined in accordance with the following tables, which shall be in lieu of the tax required to be deducted and withheld under subsection (a):”.

SEC. 223 203. ADDITIONAL WITHHOLDING OF TAX ON WAGES UPON AGREEMENT BY EMPLOYER AND EMPLOYEE.

Section 1622 (relating to income tax collected at source on wages) is hereby amended by adding at the end thereof the following new subsection:

“(k) **ADDITIONAL WITHHOLDING.**—The Secretary is authorized by regulations to provide, under such conditions and to such extent as he deems proper, for withholding in addition to that otherwise required under this section in cases in which the employer and the employee agree (in such form as the Secretary may by regulations prescribe) to such additional withholding. Such additional withholding shall for all purposes be considered tax required to be deducted and withheld under this subchapter.”

SEC. 224 204. EFFECTIVE DATE.

The amendments made by this ~~part~~ *title* shall be applicable only with respect to wages paid on or after ~~September~~ *November 1, 1951.*

1 **TITLE III—MISCELLANEOUS INCOME TAX**

2 **AMENDMENTS**

3 **SEC. 301. TAX TREATMENT IN CASE OF HEAD OF HOUSE-**

4 **HOLD.**

5 (a) **SURTAX IN CASE OF HEAD OF HOUSEHOLD.**—Sec-

6 tion 12 (c) is hereby amended to read as follows:

7 “(e) **HEAD OF HOUSEHOLD.**—

8 “(1) **RATES OF SURTAX.**—In the case of taxable

9 years beginning after August 31, 1951, there shall be

10 levied, collected, and paid for each taxable year upon

11 the surtax net income of every individual who is the

12 head of a household the surtax shown in the following

13 table:

If the surtax net income is:	The surtax shall be:
Not over \$2,000-----	17% of the surtax net income.
Over \$2,000 but not over \$4,000---	\$340, plus 18% of excess over \$2,000.
Over \$4,000 but not over \$6,000---	\$700, plus 21% of excess over \$4,000.
Over \$6,000 but not over \$8,000---	\$1,120, plus 23% of excess over \$6,000.
Over \$8,000 but not over \$10,000--	\$1,580, plus 27% of excess over \$8,000.
Over \$10,000 but not over \$12,000--	\$2,120, plus 29% of excess over \$10,000.
Over \$12,000 but not over \$14,000--	\$2,700, plus 33% of excess over \$12,000.
Over \$14,000 but not over \$16,000--	\$3,360, plus 36% of excess over \$14,000.
Over \$16,000 but not over \$18,000--	\$4,080, plus 39% of excess over \$16,000.
Over \$18,000 but not over \$20,000--	\$4,860, plus 40% of excess over \$18,000.
Over \$20,000 but not over \$22,000--	\$5,660, plus 41% of excess over \$20,000.
Over \$22,000 but not over \$24,000--	\$6,540, plus 46% of excess over \$22,000.
Over \$24,000 but not over \$26,000--	\$7,460, plus 48% of excess over \$24,000.
Over \$26,000 but not over \$28,000--	\$8,420, plus 49% of excess over \$26,000.

If the surtax net income is:	The surtax shall be:
Over \$28,000 but not over \$32,000_	\$9,400, plus 52% of excess over \$28,000.
Over \$32,000 but not over \$36,000_	\$11,480, plus 54% of excess over \$32,000.
Over \$36,000 but not over \$40,000_	\$13,640, plus 57% of excess over \$36,000.
Over \$40,000 but not over \$44,000_	\$15,920, plus 60% of excess over \$40,000.
Over \$44,000 but not over \$50,000_	\$18,320, plus 62% of excess over \$44,000.
Over \$50,000 but not over \$60,000_	\$22,040, plus 65% of excess over \$50,000.
Over \$60,000 but not over \$70,000_	\$28,540, plus 68% of excess over \$60,000.
Over \$70,000 but not over \$80,000_	\$35,340, plus 71% of excess over \$70,000.
Over \$80,000 but not over \$90,000_	\$42,440, plus 74% of excess over \$80,000.
Over \$90,000 but not over \$100,000_	\$49,840, plus 76% of excess over \$90,000.
Over \$100,000 but not over \$120,000_	\$57,440, plus 79% of excess over \$100,000.
Over \$120,000 but not over \$150,000_	\$73,240, plus 81% of excess over \$120,000.
Over \$150,000 but not over \$160,000_	\$97,540, plus 83% of excess over \$150,000.
Over \$160,000 but not over \$180,000_	\$105,840, plus 84% of excess over \$160,000.
Over \$180,000 but not over \$200,000_	\$122,640, plus 85% of excess over \$180,000.
Over \$200,000 but not over \$300,000_	\$139,640, plus 87% of excess over \$200,000.
Over \$300,000 -----	\$226,640, plus 88% of excess over \$300,000.

1 In the case of the head of a household whose surtax
2 net income for the taxable year is over \$90,000, this
3 paragraph shall not apply if the defense tax provided in
4 section 16 is applicable to such taxable year. For per-
5 centage increase in the amount of tax imposed by this
6 subsection, see section 16.

7 “(2) SURTAX NET INCOME OVER \$9,000.—In
8 the case of a taxable year beginning after August 31,
9 1951, to which the defense tax provided in section 16

1 is applicable, if the surtax net income for the taxable
 2 year of an individual who is the head of a household
 3 is over \$90,000, there shall be levied, collected, and
 4 paid for such taxable year upon the surtax net income
 5 of such individual the surtax shown in the following
 6 table:

If the surtax net income is:			The surtax shall be:		
Over \$90,000	but not over	\$100,000.	over	\$40,840, plus 75%	of excess over \$90,000.
Over \$100,000	but not over	\$120,000.	over	\$57,340, plus 76%	of excess over \$100,000.
Over \$120,000	but not over	\$140,000.	over	\$72,540, plus 78%	of excess over \$120,000.
Over \$140,000	but not over	\$160,000.	over	\$88,140, plus 80%	of excess over \$140,000.
Over \$160,000	-----			\$104,140, plus 81%	of excess over \$160,000.

7 “(c) *RATES OF SURTAX—HEAD OF HOUSEHOLD.—*
 8 “(1) *TAXABLE YEARS BEGINNING AFTER OCTO-*
 9 *BER 31, 1951 AND BEFORE JANUARY 1, 1954.—In the case*
 10 *of taxable years beginning after October 31, 1951, and*
 11 *before January 1, 1954, there shall be levied, collected,*
 12 *and paid for each taxable year upon the surtax net income*
 13 *of every individual who is the head of a household the*
 14 *surtax shown in the following table:*

“If the surtax net income is:		The surtax shall be:	
Not over \$2,000	-----	19.2%	of the surtax net income.
Over \$2,000	but not over \$4,000---	\$384, plus 20.8%	of excess over \$2,000.
Over \$4,000	but not over \$6,000---	\$800, plus 25%	of excess over \$4,000.
Over \$6,000	but not over \$8,000---	\$1,300, plus 28%	of excess over \$6,000.
Over \$8,000	but not over \$10,000--	\$1,860, plus 33%	of excess over \$8,000.

<i>"If the surtax net income is:</i>	<i>The surtax shall be:</i>
<i>Over \$10,000 but not over \$12,000—</i>	<i>\$2,520, plus 35% of excess over \$10,000.</i>
<i>Over \$12,000 but not over \$14,000—</i>	<i>\$3,220, plus 41% of excess over \$12,000.</i>
<i>Over \$14,000 but not over \$16,000—</i>	<i>\$4,040, plus 45% of excess over \$14,000.</i>
<i>Over \$16,000 but not over \$18,000—</i>	<i>\$4,940, plus 48% of excess over \$16,000.</i>
<i>Over \$18,000 but not over \$20,000—</i>	<i>\$5,900, plus 51% of excess over \$18,000.</i>
<i>Over \$20,000 but not over \$22,000—</i>	<i>\$6,920, plus 54% of excess over \$20,000.</i>
<i>Over \$22,000 but not over \$24,000—</i>	<i>\$8,000, plus 56% of excess over \$22,000.</i>
<i>Over \$24,000 but not over \$28,000—</i>	<i>\$9,120, plus 58% of excess over \$24,000.</i>
<i>Over \$28,000 but not over \$32,000—</i>	<i>\$11,440, plus 60% of excess over \$28,000.</i>
<i>Over \$32,000 but not over \$36,000—</i>	<i>\$13,840, plus 62% of excess over \$32,000.</i>
<i>Over \$36,000 but not over \$40,000—</i>	<i>\$16,320, plus 64% of excess over \$36,000.</i>
<i>Over \$40,000 but not over \$44,000—</i>	<i>\$18,880, plus 67% of excess over \$40,000.</i>
<i>Over \$44,000 but not over \$50,000—</i>	<i>\$21,560, plus 68% of excess over \$44,000.</i>
<i>Over \$50,000 but not over \$60,000—</i>	<i>\$25,640, plus 71% of excess over \$50,000.</i>
<i>Over \$60,000 but not over \$70,000—</i>	<i>\$32,740, plus 74% of excess over \$60,000.</i>
<i>Over \$70,000 but not over \$80,000—</i>	<i>\$40,140, plus 76% of excess over \$70,000.</i>
<i>Over \$80,000 but not over \$90,000—</i>	<i>\$47,740, plus 79% of excess over \$80,000.</i>
<i>Over \$90,000 but not over \$100,000—</i>	<i>\$55,640, plus 81% of excess over \$90,000.</i>
<i>Over \$100,000 but not over \$130,000—</i>	<i>\$63,740, plus 84% of excess over \$100,000.</i>
<i>Over \$130,000 but not over \$160,000—</i>	<i>\$88,940, plus 85% of excess over \$130,000.</i>
<i>Over \$160,000 but not over \$200,000—</i>	<i>\$114,440, plus 87% of excess over \$160,000.</i>
<i>Over \$200,000 but not over \$250,000—</i>	<i>\$149,240, plus 88% of excess over \$200,000.</i>
<i>Over \$250,000-----</i>	<i>\$193,240, plus 88.7% of excess over \$250,000.</i>

1 “(2) TAXABLE YEARS BEGINNING AFTER DECEM-
2 BER 31, 1953.—In the case of taxable years beginning
3 after December 31, 1953, there shall be levied, collected,
4 and paid for each taxable year upon the surtax net

- 1 income of every individual who is the head of a household
 2 the surtax shown in the following table:

<i>"If the surtax net income is:</i>	<i>The surtax shall be:</i>
<i>Not over \$2,000-----</i>	<i>17% of the surtax net income.</i>
<i>Over \$2,000 but not over \$4,000---</i>	<i>\$340, plus 18.5% of excess over \$2,000.</i>
<i>Over \$4,000 but not over \$6,000---</i>	<i>\$710, plus 22% of excess over \$4,000.</i>
<i>Over \$6,000 but not over \$8,000---</i>	<i>\$1,150, plus 25% of excess over \$6,000.</i>
<i>Over \$8,000 but not over \$10,000--</i>	<i>\$1,650, plus 29% of excess over \$8,000.</i>
<i>Over \$10,000 but not over \$12,000-</i>	<i>\$2,230, plus 32% of excess over \$10,000.</i>
<i>Over \$12,000 but not over \$14,000-</i>	<i>\$2,870, plus 37% of excess over \$12,000.</i>
<i>Over \$14,000 but not over \$16,000-</i>	<i>\$3,610, plus 40% of excess over \$14,000.</i>
<i>Over \$16,000 but not over \$18,000-</i>	<i>\$4,410, plus 43% of excess over \$16,000.</i>
<i>Over \$18,000 but not over \$20,000-</i>	<i>\$5,270, plus 45% of excess over \$18,000.</i>
<i>Over \$20,000 but not over \$22,000-</i>	<i>\$6,170, plus 48% of excess over \$20,000.</i>
<i>Over \$22,000 but not over \$24,000-</i>	<i>\$7,130, plus 51% of excess over \$22,000.</i>
<i>Over \$24,000 but not over \$26,000-</i>	<i>\$8,150, plus 52% of excess over \$24,000.</i>
<i>Over \$26,000 but not over \$28,000-</i>	<i>\$9,190, plus 54% of excess over \$26,000.</i>
<i>Over \$28,000 but not over \$32,000-</i>	<i>\$10,270, plus 55% of excess over \$28,000.</i>
<i>Over \$32,000 but not over \$38,000-</i>	<i>\$12,470, plus 59% of excess over \$32,000.</i>
<i>Over \$38,000 but not over \$44,000-</i>	<i>\$16,010, plus 62% of excess over \$38,000.</i>
<i>Over \$44,000 but not over \$50,000-</i>	<i>\$19,730, plus 66% of excess over \$44,000.</i>
<i>Over \$50,000 but not over \$60,000-</i>	<i>\$23,690, plus 69% of excess over \$50,000.</i>
<i>Over \$60,000 but not over \$70,000-</i>	<i>\$30,590, plus 71% of excess over \$60,000.</i>
<i>Over \$70,000 but not over \$80,000-</i>	<i>\$37,690, plus 74% of excess over \$70,000.</i>
<i>Over \$80,000 but not over \$90,000-</i>	<i>\$45,090, plus 78% of excess over \$80,000.</i>
<i>Over \$90,000 but not over \$100,000-</i>	<i>\$52,890, plus 80% of excess over \$90,000.</i>
<i>Over \$100,000 but not over \$110,000.</i>	<i>\$60,890, plus 82% of excess over \$100,000.</i>
<i>Over \$110,000 but not over \$130,000.</i>	<i>\$69,090, plus 83% of excess over \$110,000.</i>
<i>Over \$130,000 but not over \$150,000.</i>	<i>\$85,690, plus 84% of excess over \$130,000.</i>

"If the surtax net income is:**The surtax shall be:**

<i>Over \$150,000 but not over \$170,000.</i>	<i>\$102,490, plus 85% of excess over \$150,000.</i>
<i>Over \$170,000 but not over \$200,000.</i>	<i>\$119,490, plus 86% of excess over \$170,000.</i>
<i>Over \$200,000 but not over \$250,000.</i>	<i>\$145,290, plus 87% of excess over \$200,000.</i>
<i>Over \$250,000-----</i>	<i>\$188,790, plus 88% of excess over \$250,000.</i>

1 “(3) DEFINITION OF HEAD OF HOUSEHOLD.—For
2 the purposes of this chapter, an individual shall be
3 considered a head of a household if, and only if, such
4 individual is not married at the close of his taxable year
5 and maintains as his home a household which constitutes
6 for such taxable year the principal place of abode, as a
7 member of such household, of:

8 “(A) ~~A son or daughter (including a stepson~~
9 ~~or stepdaughter) of the taxpayer, or a descendant~~
10 ~~of such son or daughter, but if such son, daughter,~~
11 *A son, stepson, daughter, or stepdaughter of the tax-*
12 *payer, or a descendant of a son or daughter of the*
13 *taxpayer, but if such son, stepson, daughter, step-*
14 *daughter, or descendant is married at the close of the*
15 *taxpayer's taxable year, only if the taxpayer is en-*
16 *titled to an exemption for the taxable year for such*
17 *person under section 25 (b) ; or*

18 “(B) Any other person who is a dependent
19 of the taxpayer, if the taxpayer is entitled to an
20 exemption for the taxable year for such person
21 under section 25 (b) .

1 An individual shall be considered as maintaining a house-
2 hold only if over half of the cost of maintaining the
3 household during the taxable year is furnished by such
4 individual.

5 “(4) DETERMINATION OF STATUS.—For the pur-
6 poses of this subsection—

7 “(A) a legally adopted child of a person shall
8 be considered a child of such person by blood;

9 “(B) an individual who is legally separated
10 from his spouse under a decree of divorce or of
11 separate maintenance shall not be considered as
12 married;

13 “(C) a taxpayer shall be considered as not
14 married at the close of his taxable year if at any
15 time during the taxable year his spouse is a non-
16 resident alien; and

17 “(D) a taxpayer shall be considered as married
18 at the close of his taxable year if his spouse (other
19 than a spouse described in subparagraph (C)) died
20 during the taxable year.

21 “(5) NONRESIDENT ALIEN.—For the purposes of
22 this chapter a taxpayer shall in no case be considered

1 a head of a household if at any time during the taxable
2 year he is a nonresident alien.”

3 ~~(b) EFFECTIVE DATE.~~—The amendment made by sub-
4 section ~~(a)~~ shall be applicable only with respect to taxable
5 years beginning after August 31, 1951.

6 (b) COMPUTATION OF TAX BY COLLECTOR.—

7 (1) Section 51 (f) (1) (relating to tax computed
8 by collector in case of wage earners) is hereby amended
9 by adding at the end thereof the following: “In the case
10 of a head of a household electing the benefits of this
11 subsection, the tax shall be computed by the collector
12 under Supplement T without regard to the taxpayer’s
13 status as head of a household.”

14 (2) Section 402 (relating to effect of election to
15 pay the tax imposed by Supplement T) is hereby
16 amended by adding at the end thereof the following:
17 “In the case of a head of a household electing to have
18 his tax computed by the collector pursuant to the pro-
19 visions of section 51 (f), the tax imposed by section 400
20 shall be computed without regard to the status of the
21 taxpayer as a head of a household.”

22 (c) EFFECTIVE DATE.—The amendments made by this
23 section shall be applicable only with respect to taxable years
24 beginning after October 31, 1951.

1 SEC. 302. PAYMENTS TO BENEFICIARIES OF DECEASED EM-
2 PLOYEES.

3 (a) AMENDMENT OF SECTION 22 (b) (1).—Section
4 22 (b) (1) (relating to exclusion of life insurance proceeds
5 from gross income) is hereby amended to read as follows:

6 “(1) LIFE INSURANCE, ETC.—Amounts received—

7 “(A) under a life insurance contract, paid by
8 reason of the death of the insured; or

9 “(B) under a contract of an employer pro-
10 viding for the payment of such amounts to the
11 beneficiaries of an employee, paid by reason of the
12 death of the employee;

13 whether in a single sum or otherwise (but if such
14 amounts are held by the insurer, or the employer, under
15 an agreement to pay interest thereon, the interest pay-
16 ments shall be included in gross income). The aggregate
17 of the amounts excludible under subparagraph (B) by
18 all the beneficiaries of the employee under all such con-
19 tracts of any one employer may not exceed \$5,000.”

20 (b) EFFECTIVE DATE.—The amendment made by this
21 section shall be applicable with respect to taxable years be-
22 ginning after December 31, 1950.

1 SEC. 303. JOINT AND SURVIVOR ANNUITIES.

2 (a) AMENDMENT OF SECTION 22 (b) (2).—Section
3 22 (b) (2) is amended by adding at the end thereof the
4 following new subparagraph:

5 “(C) Joint and Survivor Annuities.—For pur-
6 poses of subparagraphs (A) and (B) of this para-
7 graph, where amounts are received by a surviving
8 annuitant under a joint and survivor’s annuity con-
9 tract and the basis of such survivor annuitant’s
10 interest is determined under section 113 (a) (5)
11 the consideration paid for such survivor’s annuity
12 shall be considered to be an amount equal to such
13 basis.”

14 (b) AMENDMENT OF SECTION 113 (a) (5).—Section
15 113 (a) (5) is amended by adding at the end thereof the
16 following: “For the purposes of this paragraph, the survivor’s
17 interest in a joint and survivor’s annuity shall be considered
18 to be property ‘acquired by bequest, devise, or inheritance’
19 from the decedent if the death of the decedent was after
20 December 31, 1950, and if the value of any part of such
21 interest was required to be included in determining the value
22 of the decedent’s gross estate under section 811.”

1 (c) *EFFECTIVE DATES.*—The amendments made by this
 2 section shall be applicable to taxable years ending after
 3 December 31, 1950.

4 *SEC. 304. INCOME FROM DISCHARGE OF INDEBTEDNESS.*

5 (a) *AMENDMENT OF SECTION 22 (b) (9).*—Effective
 6 with respect to discharges of indebtedness occurring within
 7 taxable years ending after December 31, 1950, section 22
 8 (b) (9) (relating to income from discharge of indebtedness)
 9 is hereby amended (1) by striking out “if the taxpayer
 10 makes and files at the time of filing the return, in such
 11 manner as the Commissioner, with the approval of the Secre-
 12 tary, by regulations prescribes, its consent” and inserting in
 13 lieu thereof “if the taxpayer, at such time and in such
 14 manner as the Secretary by regulations prescribes, makes
 15 and files its consent”, and (2) by striking out the last sen-
 16 tence thereof.

17 (b) *AMENDMENT OF SECTION 22 (b) (10).*—Section
 18 22 (b) (10) (relating to income from discharge of indebted-
 19 ness of a railroad corporation) is hereby amended by striking
 20 out “December 31, 1951” and inserting in lieu thereof “De-
 21 cember 31, 1954”.

22 *SEC. 305. COMPENSATION OF CERTAIN MEMBERS OF THE ARMED*
 23 *FORCES.*

24 (a) *AMENDMENT OF SECTION 22 (b) (13).*—Section
 25 22 (b) (13) (relating to exclusion from gross income of

1 compensation of certain members of the armed forces) is
2 hereby amended by striking out subparagraphs (A) and
3 (B) and inserting in lieu thereof the following:

4 “(A) Enlisted personnel.—Compensation re-
5 ceived for active service as a member below the
6 grade of commissioned officer in the armed forces
7 of the United States for any month during any
8 part of which such member—

9 “(i) served in a combat zone after June
10 24, 1950, and prior to January 1, 1954, or

11 “(ii) was hospitalized as a result of
12 wounds, disease, or injury incurred while serv-
13 ing in a combat zone prior to January 1, 1954;
14 but this clause shall not apply for any month
15 during any part of which there are no combat-
16 ant activities in any combat zone as determined
17 under subparagraph (C) (iii) of this para-
18 graph.

19 “(B) Commissioned officers.—So much of the
20 compensation as does not exceed \$200 received for
21 active service as a commissioned officer in the armed
22 forces of the United States for any month during
23 any part of which such officer—

24 “(i) served in a combat zone after June
25 24, 1950, and prior to January 1, 1954, or

1 “(ii) was hospitalized as a result of wounds,
 2 disease, or injury incurred while serving in a
 3 combat zone prior to January 1, 1954; but this
 4 clause shall not apply for any month during
 5 any part of which there are no combatant activi-
 6 ties in any combat zone as determined under sub-
 7 paragraph (C) (iii) of this paragraph.”

8 (b) DEFINITION OF SERVICE IN COMBAT ZONE.—
 9 Clause (iii) of section 22 (b) (13) (C) is hereby amended
 10 by striking out “such zone; and” and inserting in lieu thereof
 11 “such zone, except that June 25, 1950 shall be considered
 12 the date of the commencing of combatant activities in the
 13 combat zone designated in Executive Order 10195; and”.

14 (c) WITHHOLDING ON WAGES.—Section 1621 (a)
 15 (1) (relating to definition of the term wages) is hereby
 16 amended to read as follows:

17 “(1) for active service as a member of the armed
 18 forces of the United States performed prior to January 1,
 19 1954, in a month for which such member is entitled to the
 20 benefits of section 22 (b) (13), or”.

21 (d) EFFECTIVE DATES.—The amendments made by
 22 subsections (a) and (b) shall be applicable to taxable years
 23 ending after June 24, 1950. The amendment made by sub-
 24 section (c) shall be applicable with respect to wages paid

1 *after the tenth day following the date of the enactment of*
2 *this Act.*

3 **SEC. 306. INVOLUNTARY LIQUIDATION AND REPLACEMENT OF**
4 **INVENTORY.**

5 *(a) AMENDMENT OF SECTION 22 (d) (6) (F) (iii).—*

6 *Section 22 (d) (6) (F) (iii) (relating to replacement of*
7 *inventory involuntarily liquidated) is hereby amended by*
8 *striking out the last sentence and inserting in lieu thereof*
9 *the following: “If, for any taxable year ending after June*
10 *30, 1950, and prior to January 1, 1953, subparagraph*
11 *(C) is applicable with respect to involuntary liquidations*
12 *of goods of the same class subject to the provisions of both*
13 *subparagraph (A) and this subparagraph, the involuntary*
14 *liquidations of such goods subject to the provisions of this*
15 *subparagraph shall be considered for the purpose of sub-*
16 *paragraph (C) as having occurred prior to the involuntary*
17 *liquidations of such goods subject to the provisions of sub-*
18 *paragraph (A). For the purpose of this clause, and with*
19 *respect to the taxable years covered by this subparagraph, the*
20 *reference in subparagraph (E) to section 734 (d) shall be*
21 *taken as a reference to section 452 (d).”*

22 *(b) EFFECTIVE DATE.—The amendment made by sub-*
23 *section (a) shall be applicable with respect to taxable years*
24 *ending after June 30, 1950.*

1 SEC. 307. MEDICAL EXPENSES.

2 (a) AMENDMENT OF SECTION 23 (x).—Section 23
3 (x) (relating to medical, dental, etc., expenses) is hereby
4 amended to read as follows:

5 “(x) MEDICAL, DENTAL, ETC., EXPENSES.—Ex-
6 penses paid during the taxable year, not compensated for by
7 insurance or otherwise, for medical care of the taxpayer, his
8 spouse, or a dependent specified in section 25 (b) (3)—

9 “(1) If neither the taxpayer nor his spouse has
10 attained the age of 65 before the close of the taxable year,
11 to the extent that such expenses exceed 5 per centum of
12 the adjusted gross income; or

13 “(2) If either the taxpayer or his spouse has at-
14 tained the age of 65 before the close of the taxable year,
15 (A) the amount of such expenses for the care of
16 the taxpayer and his spouse, and (B) the amount by
17 which such expenses for the care of such dependents
18 exceed 5 per centum of the adjusted gross income.

19 The deduction under this subsection shall not be in excess of
20 \$1,250 multiplied by the number of exemptions allowed under
21 section 25 (b) for the taxable year (exclusive of exemptions
22 allowed under section 25 (b) (1) (B) or (C)), with a
23 maximum deduction of \$2,500, except that the maximum de-
24 duction shall be \$5,000 in the case of a joint return of hus-
25 band and wife under section 51 (b). The term ‘medical

1 care', as used in this subsection, shall include amounts paid
 2 for the diagnosis, cure, mitigation, treatment, or prevention of
 3 disease, or for the purpose of affecting any structure or
 4 function of the body (including amounts paid for accident
 5 or health insurance). The determination of whether an indi-
 6 vidual is married at any time during the taxable year shall
 7 be made in accordance with the provisions of section 51
 8 (b) (5)."

9 (b) *EFFECTIVE DATE.*—The amendment made by
 10 this section shall be applicable with respect to taxable years
 11 beginning after December 31, 1950.

12 **SEC. 308. STANDARD DEDUCTION.**

13 (a) *METHOD OF ELECTION.*—Subparagraphs (A) and
 14 (B) of section 23 (aa) (3) (relating to optional standard
 15 deduction for individuals) are hereby amended by striking
 16 out the word "only"; and subparagraph (C) of section 23
 17 (aa) (3) is hereby amended to read as follows:

18 " (C) If the taxpayer upon making his return
 19 fails to signify, in the manner provided by sub-
 20 paragraph (A) or (B), his election to take the
 21 standard deduction, such failure shall be considered
 22 his election not to take the standard deduction."

23 (b) *CHANGE OF ELECTION.*—Section 23 (aa) is

1 *hereby amended by adding at the end thereof the following*
2 *new paragraph:*

3 “(7) *Change of election.*—Under regulations pre-
4 scribed by the Secretary, a change of an election to
5 take, or not to take, the standard deduction for any tax-
6 able year may be made after the filing of the return for
7 such year. If the spouse of the taxpayer filed a separate
8 return for any taxable year corresponding, for the pur-
9 poses of paragraph (4), to the taxable year of the tax-
10 payer, the change shall not be allowed unless, in accord-
11 ance with such regulations—

12 “(A) *the spouse makes a change of election*
13 *with respect to the standard deduction for the tax-*
14 *able year covered in such separate return, consistent*
15 *with the change of election sought by the taxpayer,*
16 *and*

17 “(B) *the taxpayer and his spouse consent in*
18 *writing to the assessment, within such period as*
19 *may be agreed upon with the Secretary, of any de-*
20 *ficiency, to the extent attributable to such change of*
21 *election, even though at the time of the filing of*
22 *such consent the assessment of such deficiency would*
23 *otherwise be prevented by the operation of any law*
24 *or rule of law.*

25 *This paragraph shall not apply if the tax liability*

of the taxpayer's spouse, for the taxable year corresponding (for the purposes of paragraph (4)) to the taxable year of the taxpayer, has been compromised under the provisions of section 3761."

(c) *EFFECTIVE DATE.*—The amendments made by this section shall be applicable only with respect to taxable years beginning after December 31, 1949.

SEC. 302 309. EXPENDITURES IN THE DEVELOPMENT OF MINES.

~~(a) DEDUCTION OF EXPENDITURES.~~—Section 23 ~~(a)~~ ~~(1)~~ ~~(relating to deductions from gross income)~~ is hereby amended by adding at the end thereof the following new subparagraph:

“(D) DEVELOPMENT OF MINES.—Expenditures paid or incurred after December 31, 1950, in the development of a mine or other natural deposit (other than an oil or gas well), to the extent paid or incurred after the existence of ores or minerals in commercially marketable quantities has been disclosed, shall be deductible, on a ratable basis, as the units of produced ores or minerals benefited by such expenditures are sold. Such expenditures, and the adjustments to basis provided in section 113 ~~(b)~~ ~~(1)~~ ~~(J)~~, shall not be taken into account in determining the adjusted basis of the property for

1 the purpose of computing depletion under section
 2 114. This subparagraph shall not apply to expend-
 3 itures for the acquisition or improvement of prop-
 4 erty of a character which is subject to the allowance
 5 for depreciation provided in section 23 (1). For
 6 purposes of this subparagraph, allowances for de-
 7 preciation shall be considered as expenditures."

8 (a) *DEDUCTION OF EXPENDITURES.*—Section 23 (re-
 9 lating to deductions from gross income) is hereby amended
 10 by adding at the end thereof the following new subsection:

11 “(cc) *DEVELOPMENT OF MINES.*—

12 “(1) *IN GENERAL.*—Except as provided in para-
 13 graph (2), all expenditures paid or incurred during the
 14 taxable year for the development of a mine or other
 15 natural deposit (other than an oil or gas well) if paid
 16 or incurred after December 31, 1950, and after the
 17 existence of ores or minerals in commercially marketable
 18 quantities has been disclosed. This subsection shall not
 19 apply to expenditures for the acquisition or improvement
 20 of property of a character which is subject to the allow-
 21 ance for depreciation provided in section 23 (1), but
 22 allowances for depreciation shall be considered, for the
 23 purposes of this subsection, as expenditures.

24 “(2) *ELECTION OF TAXPAYER.*—At the election
 25 of the taxpayer, made in accordance with regulations

1 *prescribed by the Secretary, expenditures described in*
2 *paragraph (1) paid or incurred during the taxable*
3 *year shall be treated as deferred expenses and shall*
4 *be deductible on a ratable basis as the units of pro-*
5 *duced ores or minerals benefited by such expenditures*
6 *are sold. In the case of such expenditures paid or*
7 *incurred during the development stage of the mine or*
8 *deposit, the election shall apply only with respect to the*
9 *excess of such expenditures during the taxable year over*
10 *the net receipts during the taxable year from the ores*
11 *or minerals produced from such mine or deposit. The*
12 *election under this paragraph, if made, must be for*
13 *the total amount of such expenditures, or the total amount*
14 *of such excess, as the case may be, with respect to the*
15 *mine or deposit, and shall be binding for such taxable*
16 *year.*

17 “(3) *ADJUSTED BASIS OF MINE OR DEPOSIT.—*
18 *The amount of expenditures which are treated under*
19 *paragraph (2) as deferred expenses shall be taken into*
20 *account in computing the adjusted basis of the mine or*
21 *deposit, except that such amount, and the adjustments*
22 *to basis provided in section 113 (b) (1) (J), shall be dis-*
23 *regarded in determining the adjusted basis of the prop-*
24 *erty for the purpose of computing a deduction for deple-*
25 *tion under section 114.”*

1 (b) ADJUSTED BASIS FOR DETERMINING GAIN OR
 2 LOSS UPON SALE OR EXCHANGE.—Section 113 (b) (1)
 3 (relating to adjusted basis of property) is hereby amended
 4 by adding at the end thereof the following subparagraph:

5 “(J) for amounts allowed as deductions ~~under~~
 6 ~~section 23 (a) (1) (D)~~ *as deferred expenses under*
 7 *section 23 (cc) (2)* (relating to certain expendi-
 8 tures in the development of mines) and result-
 9 ing in a reduction of the taxpayer’s taxes under this
 10 chapter, but not less than the amounts allowable
 11 under such section for the taxable year and prior
 12 years.”

13 (c) TECHNICAL AMENDMENT.—Section 24 (a) (2)
 14 (relating to items not deductible) is hereby amended by
 15 adding after the word “estate” the following: “, except
 16 expenditures for the development of mines or deposits
 17 deductible under section 23 ~~(a) (1) (D)~~ (cc)”.

18 (d) EFFECTIVE DATE.—The amendments made by this
 19 section shall be applicable to taxable years ending after
 20 December 31, 1950.

21 SEC. 310. GROSS INCOME OF DEPENDENT OF TAXPAYER.

22 (a) INCREASE IN AMOUNT OF GROSS INCOME PER-
 23 MITTED.—Section 25 (b) (1) (D) (relating to exemptions
 24 for dependents of taxpayer) is hereby amended by striking
 25 out “\$500” and inserting in lieu thereof “\$600”.

1 (b) *EFFECTIVE DATE.*—The amendment made by sub-
 2 section (a) shall be applicable only with respect to taxable
 3 years beginning after December 31, 1950.

4 *SEC. 311. CREDIT FOR DIVIDENDS RECEIVED.*

5 (a) *DIVIDENDS FROM FOREIGN CORPORATION EN-*
 6 *GAGED IN TRADE OR BUSINESS IN THE UNITED STATES.*—
 7 Section 26 (b) (relating to dividends received credit) is
 8 hereby amended by inserting after paragraph (2) the follow-
 9 ing new paragraph:

10 “(3) *DIVIDENDS RECEIVED FROM CERTAIN*
 11 *FOREIGN CORPORATIONS.*—In the case of dividends
 12 received from a foreign corporation (other than a for-
 13 eign personal holding company) which is subject to tax-
 14 ation under this chapter, if, for an uninterrupted period
 15 of not less than 36 months ending with the close of such
 16 foreign corporation’s taxable year preceding the declara-
 17 tion of such dividends (or if the corporation has not been
 18 in existence for 36 months at the close of the taxable
 19 year preceding the declaration of such dividends, for the
 20 period the foreign corporation has been in existence)—

21 “(A) such foreign corporation has been en-
 22 gaged in trade or business within the United States;
 23 and

24 “(B) 50 per centum or more of the gross

1 *income of such foreign corporation has been derived*
 2 *from sources within the United States,*
 3 *85 per centum of the amount received as dividends from*
 4 *earnings or profits accumulated during such uninter-*
 5 *rupted period but not in excess of an amount which bears*
 6 *the same ratio to 85 per centum of the amount received*
 7 *as dividends from earnings or profits accumulated during*
 8 *such uninterrupted period as the normal-tax net income*
 9 *of such foreign corporation for such uninterrupted*
 10 *period from sources within the United States bears to its*
 11 *entire normal-tax net income for such uninterrupted*
 12 *period."*

13 *(b) TECHNICAL AMENDMENT.—Section 119 (a) (2)*
 14 *(B) (relating to rules as to source of income in the case of*
 15 *dividends) is hereby amended by inserting before the semi-*
 16 *colon at the end thereof the following: "to the extent exceeding*
 17 *the amount which is 100/85ths of the amount of the credit*
 18 *allowable under section 26 (b) in respect of such dividends".*

19 *(c) EFFECTIVE DATE.—The amendments made by this*
 20 *section shall be applicable only with respect to taxable years*
 21 *beginning after December 31, 1950.*

22 **SEC. 312. JOINT RETURN AFTER FILING SEPARATE RETURN.**

23 *(a) CHANGE OF ELECTION.—Section 51 of the In-*
 24 *ternal Revenue Code (relating to making of individual re-*

1 turns) is hereby amended by adding at the end thereof the
2 following new subsection:

3 “(g) *JOINT RETURN AFTER FILING SEPARATE RE-*
4 *TURN.*—

5 “(1) *IN GENERAL.*—If an individual has filed a
6 separate return for a taxable year for which a joint
7 return could have been made by him and his spouse under
8 subsection (b) of this section, and the time prescribed
9 by law for filing the return for such taxable year has
10 expired, such individual and his spouse may nevertheless
11 make a joint return for such taxable year. A joint re-
12 turn filed by the husband and wife in such a case shall
13 constitute the return of the husband and wife for such
14 taxable year, and all payments, credits, refunds, or other
15 repayments made or allowed with respect to the separate
16 return of either spouse for such taxable year shall be
17 taken into account in determining the extent to which
18 the tax based upon the joint return has been paid.

19 “(2) *PAYMENTS REQUIRED BEFORE JOINT RE-*
20 *TURN CAN BE MADE.*—A joint return can be made under
21 paragraph (1) only if there is paid in full at or before
22 the time of the filing of the joint return—

23 “(A) all amounts previously assessed with re-
24 spect to either spouse for such taxable year;

1 “(B) all amounts shown as the tax by either
2 spouse upon his separate return for such taxable
3 year; and

4 “(C) any amount determined, at the time of
5 the filing of the joint return, as a deficiency with
6 respect to either spouse for such taxable year if,
7 prior to such filing, a notice under section 272 (a)
8 of such deficiency has been mailed.

9 “(3) TIME FOR MAKING JOINT RETURN.—A
10 joint return cannot be made under paragraph (1)—

11 “(A) after the expiration of three years from
12 the last date prescribed by law for filing the return
13 for such taxable year (determined without regard
14 to any extension of time granted to either spouse);

15 “(B) after there has been mailed to either
16 spouse, with respect to such taxable year, a notice
17 of deficiency under section 272 (a), if the spouse,
18 as to such notice, files a petition with the Tax Court
19 of the United States within the time prescribed in
20 such section;

21 “(C) after either spouse has commenced a suit
22 in any court for the recovery of any part of the
23 tax for such taxable year; or

24 “(D) after either spouse has entered into a
25 closing agreement under section 3760 with respect

1 *to such taxable year, or after any civil or crimi-*
 2 *nal case arising against either spouse with respect*
 3 *to such taxable year has been compromised under*
 4 *section 3761.*

5 “(4) *ELECTIONS MADE IN SEPARATE RETURN.—*

6 *If a joint return is made under this subsection, any*
 7 *election (other than the election to file a separate return)*
 8 *made by either spouse in his separate return for such*
 9 *taxable year with respect to the treatment of any income,*
 10 *deduction, or credit of such spouse shall not be changed*
 11 *in the making of the joint return where such election*
 12 *would have been irrevocable if the joint return had not*
 13 *been made.*

14 “(5) *DEATH OF SPOUSE.—If a joint return is*
 15 *made under this subsection after the death of either*
 16 *spouse, such return with respect to the decedent can be*
 17 *made only by his executor or administrator.*

18 “(6) *ADDITIONS TO THE TAX.—Where the amount*
 19 *shown as the tax by the husband and wife on a joint*
 20 *return made under this subsection exceeds the aggregate*
 21 *of the amounts shown as the tax upon the separate return*
 22 *of each spouse—*

23 “(A) *Negligence.—If any part of such excess*
 24 *is attributable to negligence or intentional disregard*
 25 *of rules and regulations (but without intent to de-*

1 *fraud) at the time of the making of such separate*
2 *return, then 5 per centum of the total amount of*
3 *such excess shall be assessed, collected, and paid in*
4 *the same manner as if it were a deficiency;*

5 *(B) Fraud.—If any part of such excess is*
6 *attributable to fraud with intent to evade tax at*
7 *the time of the making of such separate return, then*
8 *50 per centum of the total amount of such excess*
9 *shall be so assessed, collected, and paid, in lieu of*
10 *the 50 per centum addition to the tax provided in*
11 *section 3612 (d) (2).*

12 *“(7) RULES FOR APPLICATION OF SECTIONS 275*
13 *AND 291.—For the purposes of section 275 (relating to*
14 *period of limitations upon assessment and collection),*
15 *and for the purposes of section 291 (relating to delin-*
16 *quent returns), a joint return made under this subsection*
17 *shall be deemed to have been filed—*

18 *“(A) where both spouses filed separate returns*
19 *prior to making the joint return—on the date the*
20 *last separate return was filed (but not earlier than*
21 *the last date prescribed by law for filing the return*
22 *of either spouse);*

23 *“(B) where only one spouse filed a separate*
24 *return prior to the making of the joint return, and*
25 *the other spouse had less than \$600 of gross income*

1 for such taxable year—on the date of the filing of
2 such separate return (but not earlier than the last
3 date prescribed by law for the filing of such sepa-
4 rate return); or

5 “(C) where only one spouse filed a separate
6 return prior to the making of the joint return, and
7 the other spouse had gross income of \$600 or more
8 for such taxable year—on the date of the filing of
9 such joint return.

10 “(8) *RULE FOR APPLICATION OF SECTION 322.*—
11 For the purposes of section 322 (relating to refunds
12 and credits), a joint return made under this subsection
13 shall be deemed to have been filed on the last date pre-
14 scribed by law for filing the return for such taxable
15 year (determined without regard to any extension of
16 time granted to either spouse).

17 “(9) *ADDITIONAL TIME FOR ASSESSMENT.*—If a
18 joint return is made under this subsection, the period of
19 limitations provided in sections 275 and 276 on the
20 making of assessments and the beginning of distraint
21 or a proceeding in court for collection shall with respect
22 to such return include one year immediately after the
23 date of the filing of such joint return (computed without
24 regard to the provisions of paragraph (7) of this sub-
25 section).

1 “(10) *RULE FOR APPLICATION OF SECTION*
 2 *3809 (a).—For the purposes of section 3809 (a) (relating*
 3 *to criminal penalties in the case of fraudulent returns)*
 4 *the term ‘return’ includes a separate return filed by a*
 5 *spouse with respect to a taxable year for which a joint*
 6 *return is made under this subsection after the filing of*
 7 *such separate return.”*

8 **(b) *EFFECTIVE DATE.***—*The amendment made by sub-*
 9 *section (a) shall be applicable only with respect to taxable*
 10 *years begining after December 31, 1950.*

11 **SEC. 313. *MUTUAL SAVINGS BANKS, BUILDING AND LOAN ASSO-***
 12 ***CIATIONS, COOPERATIVE BANKS.***

13 **(a) *MUTUAL SAVINGS BANKS.***—*Section 101 (2) (re-*
 14 *lating to exemption from tax of mutual savings banks) is*
 15 *hereby repealed.*

16 **(b) *BUILDING AND LOAN ASSOCIATIONS AND COOP-***
 17 ***ERATIVE BANKS.***—*Section 101 (4) (relating to exemption*
 18 *from tax of building and loan associations and cooperative*
 19 *banks) is hereby amended to read as follows:*

20 “(4) *Credit unions without capital stock organized*
 21 *and operated for mutual purposes and without profit;”.*

22 **(c) *FEDERAL SAVINGS AND LOAN ASSOCIATIONS.***—
 23 *Section 5 (h) of the Home Owners’ Loan Act of 1933, as*
 24 *amended (12 U. S. C. 1464 (h)), is hereby amended by*
 25 *striking out “date)” and inserting in lieu thereof the follow-*

ing: "date, and except, in the case of taxable years beginning after December 31, 1951, income, war-profits, and excess-profits taxes)".

(d) *BAD DEBT RESERVES*.—Section 23 (k) (1) (relating to deduction from gross income of bad debts) is hereby amended by adding at the end thereof the following: "In the case of a mutual savings bank not having capital stock represented by shares, a domestic building and loan association, and a cooperative bank without capital stock organized and operated for mutual purposes and without profit, the reasonable addition to a reserve for bad debts shall be determined with due regard to the amount of the taxpayer's surplus or bad debt reserves existing at the close of December 31, 1951."

(e) *DIVIDENDS PAID TO DEPOSITORS*.—Section 23 (r) (relating to the deduction from gross income of certain dividends paid by banking corporations) is hereby amended to read as follows:

"(r) *DIVIDENDS PAID BY BANKING CORPORATIONS*.—

"(1) In the case of mutual savings banks, cooperative banks, and domestic building and loan associations, amounts paid to depositors or credited to the accounts of depositors as dividends on their deposits or withdrawable accounts.

1 “(2) For deduction of dividends paid by certain
2 other banking corporations, see section 121.”

3 (f) DEDUCTION FOR REPAYMENT TO THE UNITED
4 STATES OF CERTAIN LOANS.—Section 23 (relating to de-
5 ductions from gross income) is hereby amended by adding at
6 the end thereof the following:

7 “(dd) REPAYMENT BY MUTUAL SAVINGS BANKS OF
8 CERTAIN LOANS.—In the case of a mutual savings bank not
9 having capital stock represented by shares, amounts paid by
10 the taxpayer during the taxable year in repayment of loans
11 made prior to September 1, 1951 by the United States or
12 any agency or instrumentality thereof which is wholly owned
13 by the United States.”

14 (g) DEFINITION OF BANK.—Section 104 (a) (relat-
15 ing to definition of bank) is hereby amended by inserting at
16 the end thereof the following: “Such term also means a
17 domestic building and loan association.”

18 (h) DEFINITION OF DOMESTIC BUILDING AND LOAN
19 ASSOCIATION.—Section 3797 (a) (relating to definitions for
20 the purposes of the Internal Revenue Code) is hereby
21 amended by adding at the end thereof the following new
22 paragraph:

23 “(19) DOMESTIC BUILDING AND LOAN ASSOCIA-
24 TION.—The term ‘domestic building and loan associa-
25 tion’ means a domestic building and loan association, a

domestic savings and loan association, and a Federal savings and loan association, substantially all the business of which is confined to making loans to members."

(i) *EFFECTIVE DATE*.—The amendments made by this section shall be applicable only with respect to taxable years beginning after December 31, 1951.

SEC. 314. INCOME TAX TREATMENT OF EXEMPT COOPERATIVES.

(a) *AMENDMENT OF SECTION 101 (12)*.—Section 101 (12) is hereby amended as follows:

(1) By inserting after "(12)" the following:
 "(A)".

(2) By inserting after such paragraph the following:

"(B) An organization exempt from taxation under the provisions of subparagraph (A) shall be subject to the taxes imposed by sections 13 and 15, or section 117 (c) (1), except that in computing the net income of such an organization there shall be allowed as deductions from gross income (in addition to other deductions allowable under section 23)—

"(i) amounts paid as dividends during the taxable year upon its capital stock, and

"(ii) amounts allocated during the taxable year to patrons with respect to its income not derived from

patronage (whether or not such income was derived during such taxable year) whether paid in cash, merchandise, capital stock, revolving fund certificates, retain certificates, certificates of indebtedness, letters of advice, or in some other manner that discloses to each patron the dollar amount allocated to him.

Patronage dividends, refunds, and rebates to patrons with respect to their patronage (whether paid in cash, merchandise, capital stock, revolving fund certificates, retain certificates, certificates of indebtedness, letters of advice, or in some other manner that discloses to each patron the dollar amount of such dividend, refund, or rebate) shall be taken into account in computing net income in the same manner as in the case of a cooperative organization not exempt under subparagraph (A). Such dividends, refunds, and rebates made after the close of the taxable year and on or before the 15th day of the third month following the close of such year shall be considered as made on the last day of such taxable year to the extent the dividends, refunds, or rebates, are attributable to patronage occurring before the close of such year.

(b) TECHNICAL AMENDMENTS.—

(1) Section 101 is hereby amended by striking out

“Except as provided in supplement U” and inserting in lieu thereof the following: “Except as provided in paragraph (12) (B) and in supplement U”.

(2) The last sentence of section 101 is hereby amended by striking out “Notwithstanding supplement U” and inserting in lieu thereof “Notwithstanding paragraph (12) (B) and supplement U”.

(c) INFORMATION RETURNS.—Section 148 (relating to information by corporations) is hereby amended by adding at the end thereof the following:

“(f) PATRONAGE DIVIDENDS.—Any corporation allocating amounts as patronage dividends, rebates, or refunds (whether in cash, merchandise, capital stock, revolving fund certificates, retain certificates, certificates of indebtedness, letters of advice, or in some other manner that discloses to each patron the amount of such dividend, refund, or rebate) shall render a correct return stating (1) the name and address of each patron to whom it has made such allocations amounting to \$100 or more during the calendar year, and (2) the amount of such allocations to each patron. If required by the Secretary, any such corporation shall render a correct return of all patronage dividends, rebates, or refunds made during the calendar year to its patrons.”

(d) WITHHOLDING OF TAX AT SOURCE.—If any law (other than sections 143 and 144 of the Internal Revenue

1 Code) enacted by Congress requires the withholding at source
 2 of tax on corporate dividends paid in cash, patronage d
 3 dividends, rebates, and refunds (whether paid in cash, merch
 4 dise, capital stock, revolving fund certificates, retain cer
 5 cates, or otherwise) shall be subject to the provisions of s
 6 law in the same manner and to the same extent as provi
 7 in such law with respect to corporate dividends paid in c

8 (e) *EFFECTIVE DATE.*—The amendments made by s
 9 sections (a) and (b) of this section shall be applicable o
 10 with respect to taxable years beginning after December
 11 1951. The amendment made by subsection (c) shall be
 12 plicable to the calendar year 1951 and subsequent calen
 13 years.

14 SEC. 315. SURTAX ON CORPORATIONS IMPROPERLY ACCU

15 *LATING SURPLUS.*

16 (a) *LONG-TERM CAPITAL GAINS.*—Section 102
 17 (1) (relating to definition of section 102 net income) is her
 18 amended by adding at the end thereof the following new s
 19 paragraph:

20 “(D) *Long-Term Capital Gains.*—The ex
 21 of the net long-term capital gain for the taxable y
 22 over the net short-term capital loss for such year, mi
 23 the taxes imposed by this chapter attributable to s
 24 excess. The taxes attributable to such excess s
 25 be an amount equal to the difference between (i)

taxes imposed by this chapter (except the tax imposed by this section) for such year and (ii) such taxes computed for such year without including such excess in net income.”

(b) *EFFECTIVE DATE.*—The amendment made by subsection (a) shall be applicable only with respect to taxable years beginning after December 31, 1950.

SEC. 316. ELECTION AS TO RECOGNITION OF GAIN IN CERTAIN CORPORATE LIQUIDATIONS.

(a) *AMENDMENT OF SECTION 112 (b) (7).*—Section 112 (b) (7) (relating to recognition of gain in certain corporate liquidations) is hereby amended by striking out in subparagraph (A) (ii) “1951” and by inserting in lieu thereof “1951 or 1952”.

(b) *BASIS OF PROPERTY.*—Section 113 (a) (18) (relating to basis of property received in certain corporate liquidations) is amended by striking out “the Revenue Act of 1950” and by inserting in lieu thereof “any revenue act”.

(c) *EFFECTIVE DATE.*—The amendments made by this section shall be applicable only to taxable years ending after December 31, 1951.

SEC. 317. CERTAIN DISTRIBUTIONS OF STOCK ON REORGANIZATION.

(a) *DISTRIBUTIONS NOT IN LIQUIDATION.*—Section 112 (b) (relating to nonrecognition of gain or loss in the

1 case of certain exchanges) is hereby amended by adding
 2 the end thereof the following new paragraph:

3 “(11) *DISTRIBUTION OF STOCK NOT IN LIQUIDATION*.—If there is distributed, in pursuance of a
 4 *reorganization*, to a shareholder of a corporation
 5 of reorganization, to a shareholder of a corporation
 6 which is a party to the reorganization, stock (other
 7 preferred stock) in another corporation which is a party
 8 to the reorganization, without the surrender by
 9 shareholder of stock, no gain to the distributee from
 10 receipt of such stock shall be recognized unless it appears
 11 that (A) any corporation which is a party to such
 12 organization was not intended to continue the active
 13 conduct of a trade or business after such reorganization
 14 (B) the corporation whose stock is distributed was
 15 principally as a device for the distribution of earnings
 16 and profits to the shareholders of any corporation
 17 party to the reorganization.”

18 (b) *BASIS OF STOCK*.—Section 113 (a) (relating to
 19 unadjusted basis for determining gain or loss) is hereby
 20 amended by adding at the end thereof the following
 21 paragraph:

22 “(23) *TAX-FREE DISTRIBUTIONS*.—If the property
 23 consists of stock distributed after the date of the enact-
 24 ment of the Revenue Act of 1951 to a taxpayer in con-
 25 nection with a transaction described in section 112

(11) (hereinafter in this paragraph called 'new stock'), or consists of stock in respect of which such distribution was made (hereinafter in this paragraph called 'old stock'), then the basis of the new stock and of the old stock, respectively, shall, in the shareholder's hands, be determined by allocating between the old stock and the new stock the adjusted basis of the old stock; such allocation to be made under regulations prescribed by the Secretary."

(c) *EFFECTIVE DATE.*—The amendments made by this section shall be applicable with respect to taxable years ending after the date of the enactment of this Act, but shall apply only with respect to distributions of stock made after such date.

SEC. 303 318. GAIN FROM SALE OR EXCHANGE OF TAX-PAYER'S RESIDENCE.

(a) *NONRECOGNITION OF GAIN IN CERTAIN CASES.*—Section 112 (relating to recognition of gain or loss) is hereby amended by adding at the end thereof the following new subsection:

"(n) *GAIN FROM SALE OR EXCHANGE OF RESIDENCE.*—

"(1) *NONRECOGNITION OF GAIN.*—If property (hereinafter in this subsection called 'old residence') used by the taxpayer as his principal residence is sold by him and, within a period beginning one year prior

1 to the date of such sale and ending one year after such
2 date, property (hereinafter in this subsection called 'new
3 residence') is purchased and used by the taxpayer as
4 his principal residence, gain (if any) from such sale
5 shall be recognized only to the extent that the taxpayer's
6 selling price of the old residence exceeds the taxpayer's
7 cost of purchasing the new residence.

8 “(2) RULES FOR APPLICATION OF SUBSECTION.—

9 For the purposes of this subsection:

10 “(A) An exchange by the taxpayer of his
11 residence for other property shall be considered as
12 a sale of such residence, and the acquisition of a
13 residence upon the exchange of property shall be
14 considered as a purchase of such residence.

15 “(B) If the taxpayer's residence (as a result
16 of its destruction in whole or in part, theft, or
17 seizure) is compulsorily or involuntarily converted
18 into property or into money, such destruction, theft,
19 or seizure shall be considered as a sale of the resi-
20 dence; and if the residence is so converted into
21 property which is used by the taxpayer as his resi-
22 dence, such conversion shall be considered as a
23 purchase of such property by the taxpayer.

24 “(C) In the case of an exchange or conversion
25 described in subparagraph (A) or (B), in deter-

1 mining the extent to which the selling price of the
2 old residence exceeds the taxpayer's cost of purchas-
3 ing the new residence, the amount realized by the
4 taxpayer upon such exchange or conversion shall be
5 considered the selling price of the old residence.

6 “(D) A residence any part of which was con-
7 structed or reconstructed by the taxpayer shall be
8 considered as purchased by the taxpayer. In de-
9 termining the taxpayer's cost of purchasing a resi-
10 dence, there shall be included only so much of his
11 cost as is attributable to the acquisition, construc-
12 tion, reconstruction, and improvements made which
13 are properly chargeable to capital account, during
14 the period specified in paragraph (1).

15 “(E) If a residence is purchased by the tax-
16 payer prior to the date of his sale of the old resi-
17 dence, the purchased residence shall not be
18 treated as his new residence if sold or otherwise
19 disposed of by him prior to the date of the sale of
20 the old residence.

21 “(F) If the taxpayer, during the period de-
22 scribed in paragraph (1), purchases more than one
23 residence which is used by him as his principal
24 residence at some time within one year after the date
25 of the sale of the old residence, only the last of such

1 residences so used by him after the date of such
2 sale shall constitute the new residence. If within
3 the one year referred to in the preceding sentence
4 property used by the taxpayer as his principal resi-
5 dence is destroyed, stolen, seized, requisitioned, or
6 condemned, or is sold or exchanged under threat
7 or imminence thereof, then for the purposes of
8 the preceding sentence such one year shall be con-
9 sidered as ending with the date of such destruction,
10 theft, seizure, requisition, condemnation, sale, or
11 exchange.

12 “(G) *In the case of a new residence the con-*
13 *struction of which was commenced by the taxpayer*
14 *prior to the expiration of one year after the date*
15 *of the sale of the old residence, the period specified*
16 *in paragraph (1), and the one year referred to in*
17 *subparagraph (F) of this paragraph, shall be con-*
18 *sidered as including a period of 18 months be-*
19 *ginning with the date of the sale of the old*
20 *residence.*

21 “(3) LIMITATION.—The provisions of paragraph
22 (1) shall not be applicable with respect to the
23 sale of the taxpayer’s residence if within one year prior
24 to the date of such sale the taxpayer sold at a gain other

1 property used by him as his principal residence, and any
2 part of such gain was not recognized by reason of the
3 provisions of paragraph (1). For the purposes of this
4 paragraph, the destruction, theft, seizure, requisition, or
5 condemnation of property or the sale or exchange of
6 property under threat or imminence thereof, shall not be
7 considered as a sale of such property.

8 “(4) BASIS OF NEW RESIDENCE.—Where the pur-
9 chase of a new residence results, under paragraph (1),
10 in the nonrecognition of gain upon the sale of an old
11 residence, in determining the adjusted basis of the new
12 residence as of any time following the sale of the old
13 residence, the adjustments to basis shall include a reduc-
14 tion by an amount equal to the amount of the gain not
15 so recognized upon the sale of the old residence. For
16 this purpose, the amount of the gain not so recognized
17 upon the sale of the old residence includes only so much
18 of such gain as is not recognized by reason of the cost,
19 up to such time, of purchasing the new residence.

20 “(5) TENANT-STOCKHOLDER IN A COOPERATIVE
21 APARTMENT CORPORATION.—For the purposes of this
22 subsection, section 113 (b) (1) (K), and section 117
23 (h) (7), references to property used by the taxpayer
24 as his principal residence, and references to the residence

1 of a taxpayer, shall include stock held by a tenant-
2 stockholder (as defined in section 23 (z) (2)) in a
3 cooperative apartment (as defined in such section) if—

4 “(A) in the case of stock sold, the apartment
5 which the taxpayer was entitled to occupy as such
6 stockholder was used by him as his principal resi-
7 dence, and

8 “(B) in the case of stock purchased, the tax-
9 payer used as his principal residence the apartment
10 which he was entitled to occupy as such stockholder.

11 “(6) HUSBAND AND WIFE.—If the taxpayer and
12 his spouse, in accordance with regulations which shall
13 be prescribed by the Secretary pursuant to this para-
14 graph, consent to the application of subparagraph (B)
15 of this paragraph, then—

16 “(A) for the purposes of this subsection, the
17 words ‘taxpayer’s selling price of the old residence’
18 shall mean the selling price (of the taxpayer, or
19 of the taxpayer and his spouse) of the old residence,
20 and the words ‘taxpayer’s cost of purchasing the
21 new residence’ shall mean the cost (to the tax-
22 payer, his spouse, or both) of purchasing the new
23 residence (whether held by the taxpayer, his spouse,
24 or the taxpayer and his spouse); and

25 “(B) so much of the gain upon the sale of the

1 old residence as is not recognized solely by reason
 2 of this paragraph, and so much of the adjustment
 3 under paragraph (4) to the basis of the new resi-
 4 dence as results solely from this paragraph, shall
 5 be allocated between the taxpayer and his spouse as
 6 provided in such regulations.

7 This paragraph shall apply only if the old residence and
 8 the new residence are each used by the taxpayer and his
 9 spouse as their principal residence. In case the tax-
 10 payer and his spouse do not consent to the application
 11 of subparagraph (B) of this paragraph, then the recog-
 12 nition of gain upon the sale of the old residence shall be
 13 determined under this subsection without regard to the
 14 rules provided in this paragraph.

15 “(7) STATUTE OF LIMITATIONS.—If the taxpayer
 16 during a taxable year sells at a gain property used by
 17 him as his principal residence, then—

18 “(A) the statutory period for the assessment
 19 of any deficiency attributable to any part of such
 20 gain ~~shall~~ not expire prior to the expiration of three
 21 years from the date the Secretary is notified by the
 22 taxpayer (in such manner as the Secretary may by
 23 regulations prescribe) of—

24 “(i) the taxpayer’s cost of purchasing the
 25 new residence which the taxpayer claims re-

sults in nonrecognition of any part of such gain,

“(ii) the taxpayer’s intention not to purchase a new residence within the period specified in paragraph (1), or

“(iii) a failure to make such purchase within such period; and

“(B) such deficiency may be assessed prior to the expiration of such three-year period notwithstanding the provisions of any other law or rule of law which would otherwise prevent such assessment.”

(b) TECHNICAL AMENDMENTS.—

(1) Section 112 (f) (relating to involuntary conversions) is hereby amended by adding at the end thereof the following: “This subsection shall not apply, in the case of property used by the taxpayer as his principal residence, if the destruction, theft, seizure, requisition, or condemnation of the residence, or the sale or exchange of such residence under threat or imminence thereof, occurred on or before December 31, 1950.”

Section 113 (a) (9) (relating to basis of property acquired as a result of involuntary conversions) is hereby amended by adding at the end thereof the following: “This paragraph shall not apply in respect of property acquired as a result of a compulsory or

1 involuntary conversion of property used by the taxpayer
2 as his principal residence if the destruction, theft, seizure,
3 requisition, or condemnation of such residence, or the
4 sale or exchange of such residence under threat or
5 imminence thereof, occurred after December 31, 1950."

6 (3) Section 113 (b) (1) (relating to adjusted
7 basis of property) is hereby amended by adding at the
8 end thereof the following new subparagraph:

9 " (K) in the case of a residence the acquisition
10 of which resulted, under the provisions of section
11 112 (n), in the nonrecognition of any part of the
12 gain realized upon the sale, exchange, or involun-
13 tary conversion of another residence, to the extent
14 provided in section 112 (n) (4)."

15 (4) Section 117 (h) (relating to determination of
16 holding period) is hereby amended by adding at the end
17 thereof the following new paragraph:

18 " (7) In determining the period for which the tax-
19 payer has held a residence, the acquisition of which
20 resulted under section 112 (n) in the nonrecognition of
21 any part of the gain realized on the sale, exchange, or
22 involuntary conversion of another residence, there shall
23 be included the period for which such other residence
24 had been held as of the date of such sale, exchange, or
25 involuntary conversion."

1 (5) Section 276 (relating to period of limitation
2 upon assessment and collection) is hereby amended by
3 adding at the end thereof the following:

4 “(e) GAIN UPON SALE OR EXCHANGE OF RESI-
5 DENCE.—In the case of a deficiency described in section
6 112 (n) (7), such deficiency may be assessed at any time
7 prior to the expiration of the time therein provided.”

8 (c) EFFECTIVE DATE.—The amendments made by this
9 section shall be applicable to taxable years ending after
10 December 31, 1950, but the provisions of section 112 (n)
11 (1) and (6) of the Internal Revenue Code shall apply only
12 with respect to residences sold (within the meaning of such
13 section) after such date.

14 SEC. ~~304~~ 319. PERCENTAGE DEPLETION.

15 (a) ALLOWANCE OF PERCENTAGE DEPLETION.—So
16 much of paragraph (4) of section 114 (b) as precedes the
17 last sentence of subparagraph (A) is hereby amended to
18 read as follows:

19 “(4) PERCENTAGE DEPLETION FOR COAL AND
20 METAL MINES AND FOR ~~CERTAIN~~ OTHER MINES AND
21 NATURAL MINERAL DEPOSITS.—

22 “(A) IN GENERAL.—The allowance for deple-
23 tion under section 23 (m) in the case of the follow-
24 ing mines and other natural deposits shall be—

25 ~~“(i) in the case of asbestos, sand, gravel,~~

stone (including pumice, scoria, and slate),
 brick and tile clay, shale, oyster shell, clam
 shell, granite, and marble, 5 per centum,

“(ii) in the case of coal, 10 per centum,

“(iii) in the case of metal mines, bauxite,
 fluorspar, flake graphite, vermiculite, beryl,
 feldspar, mica, talc (including pyrophyllite),
 lepidolite, spodumene, barite, ball and sagger
 clay, china clay, phosphate rock, rock asphalt,
 trona, bentonite, gilsonite, thenardite (includ-
 ing thenardite from brines or mixtures of
 brine), potash, borax, fuller’s earth, tripoli, re-
 fractory and fire clay, quartzite, perlite, diato-
 maceous earth, metallurgical grade limestone,
 and chemical grade limestone, 15 per centum,
 and

“(i) in the case of sand, gravel, slate,
 stone (including pumice and scoria), brick and
 tile clay, shale, oyster shell, clam shell, granite,
 marble, sodium chloride, and, if from brine
 wells, calcium chloride, magnesium chloride,
 potassium chloride, and bromine, 5 per centum,

“(ii) in the case of coal, asbestos, brucite,
 dolomite, magnesite, wollastonite, borax, fuller’s

1 *earth, tripoli, refractory and fire clay, quartzite,*
 2 *perlite, diatomaceous earth, metallurgical grade*
 3 *limestone, and chemical grade limestone, 10 per*
 4 *centum,*

5 “(iii) in the case of metal mines, *aplite,*
 6 *bauxite, fluorspar, flake graphite, vermiculite,*
 7 *beryl, feldspar, mica, talc (including pyro-*
 8 *phyllite), lepidolite, spodumene, barite, ball clay,*
 9 *sagger clay, china clay, phosphate rock, rock*
 10 *asphalt, trona, bentonite, gilsonite, thenardite,*
 11 *and potash, 15 per centum, and*

12 “(iv) in the case of sulfur, 23 per centum,
 13 of the gross income from the property during
 14 the taxable year, excluding from such gross in-
 15 come an amount equal to any rents or royalties
 16 paid or incurred by the taxpayer in respect of
 17 the property.”

18 (b) TECHNICAL AMENDMENT.—So much of para-
 19 graph (2) of section 114 (b) as precedes “discovered by
 20 the taxpayer after February 28, 1913” is hereby amended
 21 to read as follows:

22 “(2) DISCOVERY VALUE IN THE CASE OF
 23 MINES.—In the case of mines (except mines in respect
 24 of which percentage depletion is allowable under para-
 25 graph (4) of this subsection)”.
 26 (c) EFFECTIVE DATE.—The amendments made by this

1 section shall be applicable only with respect to taxable
2 years beginning after December 31, 1950.

3 *SEC. 320. REDEMPTION OF STOCK TO PAY DEATH TAXES.*

4 *(a) AMENDMENT OF SECTION 115 (g) (3).—Section*
5 *115 (g) (3) (relating to redemption of stock to pay death*
6 *taxes) is hereby amended by striking out “50 per centum”*
7 *and inserting in lieu thereof “25 per centum”.*

8 *(b) EFFECTIVE DATE.—The amendment made by sub-*
9 *section (a) shall be applicable to taxable years ending on or*
10 *after the date of the enactment of this Act, but shall apply*
11 *only to amounts distributed on or after such date.*

12 *SEC. 321. EARNED INCOME FROM SOURCES WITHOUT THE*
13 *UNITED STATES.*

14 *(a) EXCLUSION FROM GROSS INCOME.—Section 116*
15 *(a) (relating to earned income from sources without the*
16 *United States) is hereby amended by striking out para-*
17 *graphs (1) and (2) and inserting in lieu thereof the*
18 *following:*

19 *“(1) BONA FIDE RESIDENT OF FOREIGN COUN-*
20 *TRY.—In the case of an individual citizen of the United*
21 *States, who establishes to the satisfaction of the Secretary*
22 *that he has been a bona fide resident of a foreign country*
23 *or countries for an uninterrupted period which includes*
24 *an entire taxable year, amounts received from sources*
25 *without the United States (except amounts paid by the*

1 *United States or any agency thereof) if such amounts*
2 *constitute earned income (as defined in paragraph (3))*
3 *attributable to such period; but such individual shall*
4 *not be allowed as a deduction from his gross income*
5 *any deductions properly allocable to or chargeable*
6 *against amounts excluded from gross income under this*
7 *paragraph.*

8 “(2) *PRESENCE IN FOREIGN COUNTRY FOR 17*
9 *MONTHS.—In the case of an individual citizen of the*
10 *United States, who during any period of 18 consecutive*
11 *months is present in a foreign country or countries dur-*
12 *ing at least 510 full days in such period, amounts re-*
13 *ceived from sources without the United States (except*
14 *amounts paid by the United States or any agency*
15 *thereof) if such amounts constitute earned income (as*
16 *defined in paragraph (3)) attributable to such period;*
17 *but such individual shall not be allowed as a deduction*
18 *from his gross income any deductions properly allocable*
19 *to or chargeable against amounts excluded from gross*
20 *income under this paragraph.”*

21 (b) *WITHHOLDING OF TAX ON WAGES.—Section 1621*

22 (a) (8) (A) *(relating to definition of wages) is hereby*
23 *amended to read as follows:*

24 “(A) *for services for an employer (other than*

the United States or any agency thereof) performed in a foreign country by a citizen of the United States, if at the time of the payment of such remuneration the employer is required by the law of any foreign country to withhold income tax upon such remuneration, or it is reasonable to believe that such remuneration will be excluded from gross income under the provisions of section 116 (a) (1) or (2), or”.

(c) *EFFECTIVE DATES.*—The amendment made by subsection (a) shall be applicable to taxable years beginning after December 31, 1950. The amendment made by subsection (b) shall be applicable with respect to wages paid on or after January 1, 1952.

SEC. 305 322. CAPITAL GAINS AND LOSSES.

(a) *TREATMENT OF LONG-TERM CAPITAL GAINS AND LOSSES.*—

(1) *AMENDMENT OF SECTION 23.*—Section 23 (relating to deductions from gross income) is hereby amended by adding at the end thereof the following new subsection:

“(ee) *LONG-TERM CAPITAL GAINS.*—In the case of a taxpayer other than a corporation, the deduction for long-term capital gains provided in section 117 (b).”

(2) *AMENDMENT OF SECTION 117 (b).*—Section

1 117 (b) (relating to treatment of long-term capital gains
2 and losses) is hereby amended to read as follows:

3 “(b) DEDUCTION FROM GROSS INCOME.—In the case
4 of a taxpayer other than a corporation, if for any taxable
5 year the net long-term capital gain exceeds the net short-
6 term capital loss, 50 per centum of the amount of such
7 excess shall be a deduction from gross income. In the case
8 of an estate or trust, the deduction shall be computed by
9 excluding the portion (if any), of the gains for the taxable
10 year from sales or exchanges of capital assets, which, under
11 section 162 (b) or (c), is includible by the income bene-
12 ficiaries as gain derived from the sale or exchange of capital
13 assets.”

14 (b) ALTERNATIVE TAX.—Section 117 (c) (2) (re-
15 lating to alternative tax) is hereby amended to read as
16 follows:

17 “(2) OTHER TAXPAYERS.—If for any taxable year
18 the net long-term capital gain of any taxpayer (other
19 than a corporation) exceeds the net short-term capital
20 loss, there shall be levied, collected, and paid, in lieu
21 of the tax imposed by sections 11 and 12 (or, in the
22 case of certain tax-exempt trusts, in lieu of the tax
23 imposed by section 421), a tax determined as follows,
24 if and only if such tax is less than the tax imposed by
25 such section:

“(A) A partial tax shall first be computed upon the net income reduced by an amount equal to 50 per centum of such excess, at the rates and in the manner as if this subsection had not been enacted.

“(B) There shall then be ascertained an amount equal to 25 per centum of the excess of the net long-term capital gain over the net short-term capital loss. In the case of taxable years to which the defense tax provided in section 16 ~~(e)~~ is applicable, such amount shall be increased by the percentage specified in such section.

“(C) The total tax shall be the partial tax computed under subparagraph (A) plus the amount computed under subparagraph (B).”

(c) TECHNICAL AMENDMENTS.—

(1) AMENDMENT OF SECTION 22 (n).—Section 22 (n) (relating to the definition of adjusted gross income) is hereby amended by striking out the word “and” at the end of paragraph (5), by striking out the period at the end of paragraph (6) and inserting in lieu thereof “; and”, and by inserting after paragraph (6) the following new paragraph:

“(7) LONG-TERM CAPITAL GAINS.—The deduction allowed by section 23 ~~(ee)~~ (ee).”

1 (2) AMENDMENT OF SECTION 117 (a).—Paragraphs
2 (2) and (4) of section 117 (a) (relating to definitions
3 of short-term capital gain and long-term capital gain)
4 are each hereby amended by striking out “net income”
5 and inserting in lieu thereof “gross income”.

6 (3) AMENDMENT OF SECTION 117 (j).—Section
7 117 (j) (2) (A) (relating to gains and losses from
8 involuntary conversion and from the sale or exchange
9 of certain property used in the trade or business) is
10 hereby amended to read as follows:

11 “(A) In determining under this paragraph
12 whether gains exceed losses, the gains described
13 therein shall be included only if and to the extent
14 taken into account in computing gross income and
15 the losses described therein shall be included only
16 if and to the extent taken into account in computing
17 net income, except that subsection (d) shall not
18 apply.”

19 (4) AMENDMENT OF SECTION 122 (d) (4).—Section
20 122 (d) (4) (relating to computation of net operating
21 loss deduction) is hereby amended to read as follows:

22 “(4) The amount deductible on account of losses
23 from sales or exchanges of capital assets shall not exceed

the amount includible on account of gains from such sales or exchanges. The deduction provided in section 23 ~~(ee)~~ (ee) shall not be allowed.”

(5) AMENDMENT OF SECTION 162 (a).—Section 162 (a) (relating to computation of net income of estates and trusts) is hereby amended by striking out the semicolon and inserting in lieu thereof a period and the following: “Where any amount of the income so paid or set aside is attributable to gain from the sale or exchange of capital assets held for more than six months, proper adjustment of the deduction otherwise allowable under this subsection shall be made for any deduction allowable to the trust under section 23 ~~(ee)~~ (ee);”

(d) EFFECTIVE DATE.—The amendments made by this section shall be applicable only with respect to taxable years beginning on or after the date of the enactment of this Act. In determining under section 117 (e) of the Internal Revenue Code the amount of the carryover to a taxable year beginning on or after such date, of the capital loss for a taxable year beginning before such date, such amendments shall not affect the computation of the amount of the net capital loss or of the net capital gain for any taxable year beginning before such date.

1 SEC. 323. SALE OF LAND WITH UNHARVESTED CROP.

2 (a) TREATMENT OF GAIN OR LOSS.—Section 117 (j)
3 (relating to sale or exchange of property used in the trade
4 or business) is hereby amended—

5 (1) By inserting immediately before the period at
6 the end of the second sentence of paragraph (1) thereof
7 the following: “and unharvested crops to which para-
8 graph (3) is applicable”; and

9 (2) By adding at the end thereof a new paragraph
10 to read as follows:

11 “(3) SALE OF LAND WITH UNHARVESTED CROP.—
12 In the case of an unharvested crop on land used in
13 the trade or business and held for more than 6 months,
14 if the crop and the land are sold or exchanged (or com-
15 pulsorily or involuntarily converted as described in
16 paragraph (2)) at the same time and to the same person,
17 the crop shall be considered as ‘property used in the
18 trade or business’.”

19 (b) TREATMENT OF DEDUCTIONS.—

20 (1) AMENDMENT OF SECTION 24.—Section 24 (re-
21 lating to items not deductible) is hereby amended by
22 adding at the end thereof a new subsection to read as
23 follows:

24 “(f) SALE OF LAND WITH UNHARVESTED CROP.—

1 Where an unharvested crop sold by the taxpayer is con-
 2 sidered under the provisions of section 117 (j) (3) as
 3 'property used in the trade or business', in computing net
 4 income no deduction (whether or not for the taxable year
 5 of the sale and whether for expenses, depreciation, or other-
 6 wise) attributable to the production of such crop shall be
 7 allowed."

8 (2) AMENDMENT OF SECTION 113 (b) (1).—Section
 9 113 (b) (1) (relating to adjustments to basis) is hereby
 10 amended by adding at the end thereof a new subpara-
 11 graph to read as follows:

12 "(L) for deductions to the extent disallowed
 13 under section 24 (f), notwithstanding the provisions
 14 of any other subparagraph of this paragraph."

15 (c) EFFECTIVE DATE.—The amendment made by sub-
 16 section (a) shall be applicable only with respect to sales, ex-
 17 changes, and conversions, occurring in taxable years be-
 18 ginning after December 31, 1950. The amendments made
 19 by subsection (b) shall be applicable to any taxable year
 20 for which a deduction is disallowed by reason of sales, ex-
 21 changes, or conversions to which subsection (a) is applicable.

22 **SEC. 306. SALES OF LIVESTOCK.**

23 ~~Effective~~ with respect to taxable years beginning after
 24 December 31, 1950, section 117 (j) (1) is hereby amended

1 by adding at the end thereof the following new sentence:
 2 “Such term also includes livestock held by the taxpayer for
 3 draft, breeding, or dairy purposes for 12 months or more.”

4 **SEC. 324. SALES OF LIVESTOCK.**

5 Section 117 (j) (1) is hereby amended by adding at the
 6 end thereof the following new sentence: “Such term also
 7 includes livestock, regardless of age, held by the taxpayer for
 8 draft, breeding, or dairy purposes, and held by him for 12
 9 months or more from the date of acquisition. Such term does
 10 not include poultry; except that such term includes turkeys,
 11 regardless of age, held by the taxpayer for breeding purposes,
 12 and held by him for 12 months or more from the date of
 13 acquisition.” The first sentence added to section 117 (j)
 14 (1) by the amendment made by this section shall be applicable
 15 with respect to taxable years beginning after December 31,
 16 1941, except that the extension of the holding period from
 17 6 to 12 months shall be applicable only with respect to taxable
 18 years beginning after December 31, 1950. The second sen-
 19 tence added to section 117 (j) (1) by the amendment made
 20 by this section shall be applicable only with respect to taxable
 21 years beginning after December 31, 1950.

22 **SEC. ~~307~~ 325. TAX TREATMENT OF COAL ROYALTIES.**

23 (a) **DEFINITION OF PROPERTY USED IN THE TRADE OR**
 24 **BUSINESS.**—Section 117 (j) (1) (relating to the definition
 25 of property used in the trade or business) is hereby amended

1 by adding after the word "timber" in the second sentence
2 thereof the following: "or coal".

3 (b) GAIN OR LOSS UPON CERTAIN DISPOSALS OF
4 TIMBER OR COAL.—Section 117 (k) (2) (relating to the
5 disposal of timber) is hereby amended to read as follows:

6 " (2) In the case of the disposal of timber or coal
7 ~~(held for more than 6 months prior to such disposal)~~
8 *(including lignite), held for more than 6 months prior*
9 *to such disposal*, by the owner thereof under any form or
10 type of contract by virtue of which the owner retains an
11 economic interest in such timber or coal, the difference
12 between the amount received for such timber or coal
13 and the adjusted depletion basis thereof shall be con-
14 sidered as though it were a gain or loss, as the case may
15 be, upon the sale of such timber or coal. Such owner
16 shall not be entitled to the allowance for percentage
17 depletion provided for in section 114 (b) (4) with
18 respect to such coal. ~~In the case of coal, this para-~~
19 ~~graph shall not apply if such owner is personally~~
20 ~~obligated to pay a share of the cost of mining opera-~~
21 ~~tions.~~ *This paragraph shall not apply to income*
22 *realized by the owner as a co-adventurer, partner,*
23 *or principal in the cutting of such timber or in the*
24 *mining of such coal. The date of disposal of such timber*
25 *or coal shall be deemed to be the date such timber is cut*

1 *or such coal is mined. In determining the gross income,*
 2 *the adjusted gross income, or the net income of the lessee,*
 3 *the deductions allowable with respect to rents and royal-*
 4 *ties shall be determined without regard to the provisions*
 5 *of this paragraph.”*

6 (c) CLERICAL AMENDMENT.—The heading to section
 7 117 (k) (relating to the gain or loss upon the cutting of
 8 timber) is hereby amended to read as follows: “(k) GAIN
 9 OR LOSS IN THE CASE OF TIMBER OR COAL.—”.

10 (d) TECHNICAL AMENDMENT.—Section 481 (a) (4)
 11 is hereby amended by striking out “cutting or disposal of
 12 timber” and inserting in lieu thereof “cutting of timber, or
 13 the disposal of timber or coal,”.

14 (e) CONFORMING AMENDMENTS.—

15 (1) Section 433 (relating to computation of excess
 16 profits net income) is hereby amended by inserting at the
 17 end thereof the following new subsection:

18 “(d) GAIN OR LOSS UPON CERTAIN DISPOSALS OF
 19 COAL IN BASE PERIOD.—For the purpose of subsection (b),
 20 the excess profits net income shall be computed as if the
 21 provisions of section 117 (j) and (k) (2) which relate to
 22 disposals of coal were a part of the law applicable to the
 23 taxable year for which excess profits net income is computed.”

24 (2) Section 440 (a) (1) (relating to definition of

“inadmissible assets”) is hereby amended by striking out “and” at the end of subparagraph (A); by striking out the period at the end of subparagraph (B) and inserting in lieu thereof “; and”; and by adding at the end thereof the following new subparagraph:

“(C) The economic interest referred to in the provisions of section 117 (k) (2) relating to coal if the taxpayer is subject to such provisions with respect to the income from such coal.”

(3) The amendments made by this subsection shall be applicable in computing the tax under subchapter D of chapter 1 for taxable years ending after December 31, 1950.

~~(d)~~ (f) EFFECTIVE DATE.—~~The~~ Except as provided in subsection (e), the amendments made by this section shall be applicable only with respect to taxable years ending after December 31, 1950 (whether the disposal of the coal occurred contract was made on, before, or after such date), but shall apply only with respect to amounts received or accrued after such date.

SEC. 308 326. COLLAPSIBLE CORPORATIONS.

(a) DEFINITIONS WITH RESPECT TO COLLAPSIBLE CORPORATIONS.—Section 117 (m) (2) (relating to defini-

1 tions with respect to collapsible corporations) is hereby
2 amended to read as follows:

3 “(2) DEFINITIONS.—

4 “(A) For the purposes of this subsection, the
5 term ‘collapsible corporation’ means a corporation
6 formed or availed of principally for the manufacture,
7 construction, or production of property, for the pur-
8 chase of property which (in the hands of the cor-
9 poration) is property described in subsection (a)
10 (1) (A), or for the holding of stock in a corpora-
11 tion so formed or availed of, with a view to—

12 “(i) the sale or exchange of stock by its
13 shareholders (whether in liquidation or other-
14 wise), or a distribution to its shareholders, prior
15 to the realization by the corporation manufac-
16 turing, constructing, producing, or purchasing
17 the property of a substantial part of the net in-
18 come to be derived from such property, and

19 “(ii) the realization by such shareholders
20 of gain attributable to such property.

21 “(B) For the purposes of subparagraph (A),
22 a corporation shall be deemed to have manufac-
23 tured, constructed, produced, or purchased property,
24 if—

25 “(i) it engaged in the manufacture, con-

struction, or production of such property to any extent,

“(ii) it holds property having a basis determined, in whole or in part, by reference to the cost of such property in the hands of a person who manufactured, constructed, produced, or purchased the property, or

“(iii) it holds property having a basis determined, in whole or in part, by reference to the cost of property manufactured, constructed, produced, or purchased by the corporation.”

(b) LIMITATIONS ON APPLICATION OF SECTION 117

(m).—Subparagraphs (A), (B), and (C) of section 117

(m) (3) (relating to the limitations on the application of section 117 (m)) are hereby amended to read as follows:

“(A) this subsection shall not apply unless, at any time after the commencement of the manufacture, construction, or production of the property, or at the time of the purchase of the property described in subsection (a) (1) (A) or at any time thereafter, such shareholder (i) owned (or was considered as owning) more than 10 per centum in value of the outstanding stock of the corporation or (ii) owned stock which was considered as owned

1 at such time by another shareholder who then owned
2 (or was considered as owning) more than 10 per
3 centum in value of the outstanding stock of the
4 corporation;

5 “(B) this subsection shall not apply to the
6 gain recognized during a taxable year unless more
7 than 70 per centum of such gain is attributable to
8 the property so manufactured, constructed, pro-
9 duced, or purchased; and

10 “(C) this subsection shall not apply to gain
11 realized after the expiration of three years following
12 the completion of such manufacture, construction,
13 production, or purchase.”

14 ~~(e) EFFECTIVE DATE.~~—The amendment made by this
15 section shall be applicable to taxable years beginning after
16 December 31, 1950. The determination of the tax treat-
17 ment of gains realized in taxable years beginning prior to
18 January 1, 1951, shall be made as if this section had not
19 been enacted and without inferences drawn from the fact
20 that the amendment to section 117 ~~(m)~~ made by this sec-
21 tion is not expressly made applicable to gains realized in
22 taxable years beginning prior to such date and without
23 inferences drawn from the limitations contained in section
24 117 ~~(m)~~, as amended by this section.

25 (c) *EFFECTIVE DATE.*—The amendments made by this

1 *section shall be applicable to taxable years ending after*
 2 *August 31, 1951, but shall be applicable only with respect to*
 3 *gains realized after such date. The determination of the*
 4 *tax treatment of gains realized prior to September 1, 1951,*
 5 *shall be made as if this section had not been enacted and*
 6 *without inferences drawn from the fact that the amendments*
 7 *to section 117 (m) made by this section are not expressly*
 8 *made applicable to gains realized prior to September 1, 1951,*
 9 *and without inferences drawn from the limitations contained*
 10 *in section 117 (m), as amended by this section.*

11 **SEC. 309 327. DEALERS IN SECURITIES—CAPITAL GAINS**
 12 **AND ORDINARY LOSSES.**

13 Effective with respect to sales or exchanges made after
 14 the expiration of the thirtieth day after the date of the enact-
 15 ment of this Act, section 117 is hereby amended by adding
 16 at the end thereof the following new subsection:

17 “(n) DEALERS IN SECURITIES.—

18 “(1) CAPITAL GAINS.—Gain by a dealer in securi-
 19 ties from the sale or exchange of any security shall in no
 20 event be considered as gain from the sale or exchange
 21 of a capital asset unless—

22 “(A) the security was, prior to the expiration
 23 of the thirtieth day after the date of its acquisition or
 24 after the date of the enactment of the Revenue Act
 25 of 1951 (whichever is the later), clearly identified

1 in the dealer's records as a security held for invest-
2 ment; and

3 “(B) the security was not, at any time after
4 the expiration of such thirtieth day, held by such
5 dealer primarily for sale to customers in the ordinary
6 course of his trade or business.

7 “(2) ORDINARY LOSSES.—Loss by a dealer in se-
8 curities from the sale or exchange of any security ~~shall~~
9 *shall, except as otherwise provided in subsection (i)*
10 *(relating to bond, etc., losses of banks)*, in no event be
11 considered as loss from the sale or exchange of property
12 which is not a capital asset if at any time after the
13 thirtieth day following the date of the enactment of the
14 Revenue Act of 1951 the security was clearly identified
15 in the dealer's records as a security held for investment.

16 “(3) DEFINITION OF SECURITY.—For the purposes
17 of this subsection the term ‘security’ means any share
18 of stock in any corporation, certificate of stock or in-
19 terest in any corporation, note, bond, debenture, or evi-
20 dence of indebtedness, or any evidence of an interest
21 in or right to subscribe to or purchase any of the
22 foregoing.”

1 SEC. 310. TREATMENT OF GAIN ON SALES OF CERTAIN
2 PROPERTY BETWEEN SPOUSES AND BETWEEN
3 AN INDIVIDUAL AND A CONTROLLED CORPORA-
4 TION.

5 ~~“(a) DISALLOWANCE OF CAPITAL GAIN TREATMENT.—~~

6 Section 117 (relating to capital gains and losses) is hereby
7 amended by adding at the end thereof the following new
8 subsection:

9 ~~“(o) GAIN FROM SALE OF CERTAIN PROPERTY BE-~~
10 ~~TWEEN SPOUSES OR BETWEEN AN INDIVIDUAL AND A~~
11 ~~CONTROLLED CORPORATION.—~~

12 ~~“(1) TREATMENT OF GAIN AS ORDINARY IN-~~
13 ~~COME.—In the case of a sale or exchange, directly or~~
14 ~~indirectly, of property described in paragraph (2)—~~

15 ~~“(A) between a husband and wife; or~~

16 ~~“(B) between an individual and a corporation~~
17 ~~more than 50 per centum in value of the outstand-~~
18 ~~ing stock of which is owned, directly or indirectly,~~
19 ~~by or for such individual,~~

20 any gain recognized to the transferor from the sale or
21 exchange of such property shall be considered as gain
22 from the sale or exchange of property which is neither a
23 capital asset nor property described in subsection (j):

1 ~~“(2) SUBSECTION APPLICABLE ONLY TO SALES OR~~
2 ~~EXCHANGES OF DEPRECIABLE PROPERTY.—~~This subsec-
3 tion shall apply only in the case of a sale or exchange of
4 property by a transferor which in the hands of the trans-
5 feree is property of a character which is subject to the
6 allowance for depreciation provided in section 23 (1).

7 ~~“(3) STOCK OWNERSHIP.—~~For the purposes of
8 determining, in applying paragraph (1) (B), the
9 ownership of stock—

10 ~~“(A) stock owned, directly or indirectly, by or~~
11 for a corporation, partnership, estate, or trust, shall
12 be considered as being owned proportionately by or
13 for its shareholders, partners, or beneficiaries;

14 ~~“(B) an individual shall be considered as own-~~
15 ing the stock owned, directly or indirectly, by or for
16 his spouse;

17 ~~“(C) if an individual owns more than 10 per~~
18 centum in value of the outstanding stock of a cor-
19 poration (including stock considered as owned by
20 him under subparagraphs (A) and (B)), such
21 individual shall be considered as owning the stock
22 owned in such corporation, directly or indirectly,
23 by or for his brothers and sisters (whether by the
24 whole or the half blood), ancestors, and lineal
25 descendants;

“(D) stock constructively owned by a person by reason of the application of subparagraph (A) shall, for the purpose of applying subparagraph (A), (B), or (C), be treated as actually owned by such person, but stock constructively owned by an individual by reason of the application of subparagraph (B) or (C) shall not be treated as owned by him for the purpose of applying either such subparagraph in order to make another the constructive owner of such stock.”

~~(b)~~ EFFECTIVE DATE.—The amendment made by subsection ~~(a)~~ shall be applicable with respect to taxable years ending after April 30, 1951, but shall apply only with respect to sales or exchanges made after May 3, 1951.

SEC. 328. RECEIPTS OF CERTAIN TERMINATION PAYMENTS BY
EMPLOYEE.

(a) TAXABILITY TO EMPLOYEE AS CAPITAL GAIN.—Section 117 of the Internal Revenue Code is hereby amended by adding at the end thereof the following subsection:

“(o) TAXABILITY TO EMPLOYEE OF TERMINATION PAYMENT.—Amounts received from the assignment or release by an employee, after more than twenty years’ employment, of all his rights to receive, after termination of his employment, a percentage of future profits or receipts of his

1 employer shall be considered an amount received from the
 2 sale or exchange of a capital asset held for more than six
 3 months, if such rights were included in the terms of the em-
 4 ployment of such employee for not less than twelve years,
 5 and if the total of the amounts received for such assignment
 6 or release are received in one taxable year and after the
 7 termination of such employment.”

8 (b) *EFFECTIVE DATE.*—The amendment made by this
 9 section shall be applicable with respect to taxable years begin-
 10 ning after December 31, 1950.

11 **SEC. 329. NET OPERATING LOSS CARRY-OVER.**

12 (a) *LOSS FOR TAXABLE YEAR BEGINNING BEFORE*
 13 *1948.*—So much of subparagraph (A) of section 122 (b)
 14 (2) (relating to the amount of carry-overs) as precedes
 15 “the taxpayer” is hereby amended to read as follows:

16 “(A) *Loss for Taxable Year Beginning Before*
 17 *1948.*—Except as provided in subparagraph (D),
 18 if for any taxable year beginning before January
 19 1, 1948.”.

20 (b) *ALLOWANCE OF FOUR-YEAR LOSS CARRY-OVER*
 21 *FROM TAXABLE YEARS 1948-1949.*—Section 122 (b) (2)
 22 (relating to the amount of carry-over) is hereby amended by
 23 adding after subparagraph (B) the following new sub-
 24 paragraphs:

25 “(C) *Loss for Taxable Year Beginning After*

December 31, 1947, and Before January 1, 1950.—

If for any taxable year beginning after December 31, 1947, and before January 1, 1950, the taxpayer has a net operating loss, such net operating loss shall be a net operating loss carry-over for each of the four succeeding taxable years, except that the carry-over in the case of each such succeeding taxable year (other than the first succeeding taxable year) shall be the excess, if any, of the amount of such net operating loss over the sum of the net income for each of the intervening years computed—

“(i) with the exceptions, additions, and limitations provided in subsection (d) (1), (2), (4), and (6), and

“(ii) by determining the net operating loss deduction for each intervening taxable year without regard to such net operating loss or to the net operating loss for any succeeding taxable year and without regard to any reduction specified in subsection (c).

For the purpose of the preceding sentence, the net operating loss for any taxable year beginning after December 31, 1947 and before January 1, 1950 shall be reduced by the sum of the net income for each of the two preceding taxable years computed—

1 “(iii) with the exceptions, additions, and
2 limitations provided in subsection (d) (1),
3 (2), (4), and (6), and

“(iv) by determining the net operating loss deduction without regard to such net operating loss or to the net operating loss for the succeeding taxable year, and without regard to any reduction specified in subsection (c).

9 “(D) *Loss for Taxable Year Beginning After*
10 *December 31, 1945 and Before January 1, 1948*
11 *in the Case of a Corporation Which Commenced*
12 *Business After December 31, 1945.—If for any*
13 *taxable year beginning after December 31, 1945,*
14 *and before January 1, 1948, a corporation which*
15 *commenced business after December 31, 1945, has*
16 *a net operating loss, such net operating loss shall be*
17 *a net operating loss carry-over for each of the four*
18 *succeeding taxable years, except that the carry-over*
19 *in the case of each such succeeding taxable year*
20 *(other than the first succeeding taxable year) shall*
21 *be the excess, if any, of the amount of such net operat-*
22 *ing loss over the sum of the net income for each of the*
23 *intervening years computed—*

24 “(i) with the exceptions, additions, and

1 limitations provided in subsection (d) (1),
2 (2), (4), and (6), and

3 “(ii) by determining the net operating loss
4 deduction for each intervening taxable year
5 without regard to such net operating loss or to
6 the net operating loss for any succeeding taxable
7 year and without regard to any reduction
8 specified in subsection (c).

9 For the purpose of the preceding sentence, the net
10 operating loss for any taxable year beginning after
11 December 31, 1945, shall be reduced by the sum
12 of the net income for each of the two preceding
13 taxable years computed—

14 “(iii) with the exceptions, additions, and
15 limitations provided in subsection (d) (1),
16 (2), (4), and (6), and

17 “(iv) by determining the net operating loss
18 deduction without regard to such net operating
19 loss or to the net operating loss for the succeeding
20 taxable year, and without regard to any reduc-
21 tion specified in subsection (c).”

22 (c) *EFFECTIVE DATE.*—The amendments made by
23 this section shall be applicable in computing the net operat-

1 *ing loss deduction for taxable years beginning after Decem-*
 2 *ber 31, 1948.*

3 **SEC. 330. STOCK OPTIONS.**

4 *(a) OPTION SUBJECT TO STOCKHOLDER APPROVAL.—*
 5 *Section 130A (d) (relating to definition of restricted stock*
 6 *option) is hereby amended by striking out “As used in” and*
 7 *inserting “For the purposes of” and by adding at the end*
 8 *thereof the following:*

9 *“(5) STOCKHOLDER APPROVAL.—If the grant of*
 10 *an option is subject to approval by stockholders, the date*
 11 *of grant of the option shall be determined as if the option*
 12 *had not been subject to such approval.”*

13 *(b) EFFECTIVE DATE.—The amendment made by sub-*
 14 *section (a) shall be effective as if it had been enacted as part*
 15 *of section 218 of the Revenue Act of 1950.*

16 **SEC. 331. CREDIT FOR TAXES OF FOREIGN CORPORATIONS.**

17 *(a) FOREIGN SUBSIDIARY OF A DOMESTIC CORPORA-*
 18 *TION.—Effective with respect to dividends received by a*
 19 *domestic corporation from a foreign corporation during tax-*
 20 *able years beginning after December 31, 1950, the first sen-*
 21 *tence of section 131 (f) (1) is hereby amended by striking*
 22 *out “a majority” and inserting in lieu thereof “at least 10*
 23 *per centum”.*

24 *(b) FOREIGN SUBSIDIARY OF A FOREIGN CORPORA-*
 25 *TION.—Effective with respect to dividends received by a*

1 foreign corporation from another foreign corporation in
 2 taxable years beginning after December 31, 1950, section 131
 3 (f) (2) is hereby amended by striking out "all the voting
 4 stock (except qualifying shares)" and inserting in lieu thereof
 5 "a majority of the voting stock".

6 (c) CLERICAL AMENDMENT.—So much of section 131
 7 (f) (1) as precedes the first sentence thereof is hereby
 8 amended to read as follows:

9 "(f) TAXES OF FOREIGN CORPORATION.—

10 "(1) TREATMENT OF TAXES PAID BY FOREIGN
 11 CORPORATION.—".

12 SEC. 332. INFORMATION AT SOURCE ON PAYMENTS OF INTEREST.

13 Section 147 (a) is hereby amended by striking out
 14 "interest," in the first sentence. Section 147 (b) is hereby
 15 amended to read as follows:

16 "(b) RETURNS REGARDLESS OF AMOUNT OF PAY-
 17 MENT.—Such returns may be required, regardless of amounts,
 18 (1) in the case of payments of interest, and (2) in the case
 19 of collections of items (not payable in the United States) of
 20 interest upon the bonds of foreign countries and interest upon
 21 the bonds of and dividends from foreign corporations by per-
 22 sons undertaking as a matter of business or for profit the col-
 23 lection of foreign payments of such interest or dividends by
 24 means of coupons, checks, or bills of exchange."

1 **SEC. 333. ABATEMENT OF INCOME TAX FOR CERTAIN MEMBERS**
2 **OF ARMED FORCES UPON DEATH.**

3 *Supplement D of chapter 1 of the Internal Revenue*
4 *Code (relating to returns and payment of tax) is hereby*
5 *amended by adding at the end thereof the following new*
6 *section:*

7 **"SEC. 154. INCOME TAXES OF MEMBERS OF ARMED FORCES UPON**
8 **DEATH.**

9 *"In the case of any individual who dies after June 24,*
10 *1950, and prior to January 1, 1954, while in active service*
11 *as a member of the Armed Forces of the United States, if*
12 *such death occurred while serving in a combat zone (as*
13 *determined under section 22 (b) (13)) or as a result of*
14 *wounds, disease, or injury incurred while so serving—*

15 *"(a) the tax imposed by this chapter shall not apply*
16 *with respect to the taxable year in which falls the date*
17 *of his death, or with respect to any prior taxable year*
18 *ending on or after the first day he so served in a combat*
19 *zone after June 24, 1950; and*

20 *"(b) the tax under this chapter and under the cor-*
21 *responding title of each prior revenue law for taxable*
22 *years preceding those specified in clause (a) which is*
23 *unpaid at the date of his death (including interest, addi-*
24 *tions to the tax, and additional amounts) shall not be*
25 *assessed, and if assessed the assessment shall be abated,*

and if collected shall be credited or refunded as an overpayment."

SEC. 334. EMPLOYEES' TRUSTS.

(a) **AMENDMENT OF SECTION 165 (b).**—Section 165

(b) (relating to taxability of beneficiary on distributions from an employees' trust) is hereby amended by adding at the end thereof the following new sentence: "Where such total distributions include securities of the employer corporation, there shall be excluded from such excess the net unrealized appreciation attributable to that part of the total distributions which consists of the securities of the employer corporation so distributed. The amount of such net unrealized appreciation and the resulting adjustments to basis of the securities of the employer corporation so distributed shall be determined in accordance with regulations which shall be prescribed by the Secretary. For purposes of this subsection, the term 'securities' means only shares of stock and bonds or debentures issued by a corporation with interest coupons or in registered form".

(b) **EFFECTIVE DATE.**—The amendment made by this section shall be applicable with respect to distributions made after December 31, 1950.

SEC. 341. LIFE INSURANCE COMPANIES.

~~(a) RESERVE AND OTHER POLICY LIABILITY CREDIT FOR 1951.~~—So much of section 202 (b) (2) (relating to

1 definition of reserve and other policy liability credit) as
 2 precedes subparagraph (A) thereof is hereby amended to
 3 read as follows:

4 “(2) SPECIAL RULE FOR 1949, 1950, AND 1951.—

5 In the case of the taxes imposed for a taxable year
 6 beginning in 1949, 1950, or 1951, the figure to be used
 7 for such year shall be computed as provided in paragraph
 8 ~~(1) except that—~~”.

9 ~~(b) EFFECTIVE DATE.~~—The amendment made by
 10 subsection ~~(a)~~ shall be applicable to taxable years beginning
 11 in 1951.

12 SEC. 335. LIFE INSURANCE COMPANIES.

13 (a) TAX FOR 1951.—Section 201 (a) (1) (relating
 14 to imposition of tax on life insurance companies) is hereby
 15 amended by adding at the end thereof the following: “In lieu
 16 of the taxes imposed by the preceding sentence, there shall
 17 be levied, collected, and paid for taxable years beginning in
 18 1951 upon the 1951 adjusted normal-tax net income (as
 19 defined in section 203A) of every life insurance company a
 20 tax equal to the sum of the following:

21 “ $3\frac{3}{4}$ per centum of the amount thereof not in excess
 22 of \$200,000, plus

23 “ $6\frac{1}{2}$ per centum of the amount thereof in excess
 24 of \$200,000.”

25 (b) ADJUSTED NORMAL-TAX NET INCOME FOR

1 1951.—Chapter 1 is hereby amended by inserting after
2 section 203 the following new section:

3 “SEC. 203A. 1951 ADJUSTED NORMAL-TAX NET INCOME.

4 “(a) 1951 ADJUSTED NORMAL-TAX NET INCOME.—
5 For the purposes of section 201, the term ‘1951 adjusted nor-
6 mal-tax net income’ means the normal-tax net income plus
7 eight times the amount of the adjustment for certain reserves
8 provided in section 202 (c) and minus the reserve interest
9 credit, if any, provided in subsection (b) of this section.

10 “(b) RESERVE INTEREST CREDIT.—For the purposes
11 of subsection (a), the reserve interest credit shall be an
12 amount determined as follows:

13 “(1) Divide the amount of the adjusted net income
14 (as defined in subsection (c)) by the amount of the
15 required interest (as defined in subsection (d)).

16 “(2) If the quotient obtained in paragraph (1)
17 is 1.05 or more, the reserve interest credit shall be zero.

18 “(3) If the quotient obtained in paragraph (1) is
19 1.00 or less, the reserve interest credit shall be an amount
20 equal to 50 per centum of the normal-tax net income.

21 “(4) If the quotient obtained in paragraph (1)
22 is more than 1.00 but less than 1.05, the reserve interest
23 credit shall be the amount obtained by multiplying the

1 *normal-tax net income by 10 times the difference be-*
 2 *tween the figure 1.05 and such quotient.*

3 “(c) *ADJUSTED NET INCOME.*—For the purposes of
 4 *subsection (b) (1), the term ‘adjusted net income’ means*
 5 *the net income computed without any deduction for tax-free*
 6 *interest minus 50 per centum of the amount of the adjustment*
 7 *for certain reserves provided in section 202 (c).*

8 “(d) *REQUIRED INTEREST.*—For the purposes of sub-
 9 *section (b) (1), the term ‘required interest’ means the*
 10 *total of—*

11 “(1) *The sum of the amounts obtained by multi-*
 12 *plying (A) each rate of interest assumed in computing*
 13 *the taxpayer’s life insurance reserves by (B) the means*
 14 *of the amounts of the taxpayer’s adjusted reserves com-*
 15 *puted at that rate at the beginning and end of the tax-*
 16 *able year,*

17 “(2) *2 per centum of the reserve for deferred divi-*
 18 *dends, and*

19 “(3) *Interest paid.”*

20 (c) *TECHNICAL AMENDMENTS.*—

21 (1) *Section 433 (a) (1) (H) (relating to excess*
 22 *profits net income of life insurance companies) is hereby*
 23 *amended by changing the semicolon at the end thereof*
 24 *to a period and by inserting thereafter the following:*

25 “In the case of taxable years beginning in 1951, there

shall be used, in lieu of the figure referred to in clause (i) of the first sentence of this subparagraph, the figure .87;”.

(2) Section 201 (f) (relating to disallowance of double deductions) is hereby amended by striking out “or 203” and inserting in lieu thereof “, 203, or 203A”.

(d) *EFFECTIVE DATE.*—The amendments made by this section shall be applicable to taxable years beginning in 1951.

SEC. 312 336. TAX TREATMENT OF CERTAIN INVESTMENT COMPANIES.

(a) *INCLUSION OF CERTAIN REGISTERED MANAGEMENT COMPANIES IN THE DEFINITION OF REGULATED INVESTMENT COMPANY.*—Section 361 (relating to definition of regulated investment companies) is hereby amended by adding at the end thereof the following new subsection:

“(e) *CERTAIN INVESTMENT COMPANIES.*—If the Securities and Exchange Commission determines in accordance with regulations issued by it, and certifies to the Secretary not more than 60 days prior to the close of the taxable year of a registered management company, that such investment company is principally engaged in the furnishing of capital to other corporations which are principally engaged in the development or exploitation of inventions, technological developments, new processes, or products not previously generally available, such investment company

1 may, in the computation of 50 per centum of the value of
2 its assets under subparagraph ~~(A)~~ of subsection ~~(b)~~ ~~(3)~~
3 for any quarter of such taxable year, include with respect
4 to any issuer securities which constitute more than ~~(10)~~ per
5 centum of the outstanding voting securities of such issuer if
6 the investment company has not continuously held any
7 security of such issuer ~~(or of any predecessor company~~
8 ~~of such issuer as determined under regulations prescribed~~
9 ~~by the Secretary)~~ for 10 or more years preceding such
10 quarter of such taxable year. The provisions of this sub-
11 section shall not apply at the close of any quarter of a tax-
12 able year to an investment company if at the close of such
13 quarter more than 25 per centum of the value of its total
14 assets is represented by securities of issuers with respect
15 to each of which the investment company holds more than
16 10 per centum of the outstanding voting securities of such
17 issuer and in respect of each of which or any predecessor
18 thereof the investment company has continuously held any
19 security for 10 or more years preceding such quarter unless
20 the value of its total assets so represented is reduced to
21 25 per centum or less within 30 days after the close of such
22 quarter. The terms used in this subsection shall have the
23 same meaning as in subsection ~~(b)~~ ~~(3)~~ of this section. For
24 the purposes of this subsection, a corporation shall be con-
25 sidered to be principally engaged in the development or

1 exploitation of inventions, technological improvements, new
2 processes, or products not previously generally available, for
3 at least 10 years after the date of the first acquisition of any
4 security in such corporation or any predecessor thereof by
5 such investment company if at the date of such acquisition
6 the corporation or its predecessor was principally so en-
7 gaged. For the purposes of the certification hereunder, the
8 Securities and Exchange Commission shall have authority to
9 issue such rules, regulations and orders, and to conduct such
10 investigations and hearings, either public or private, as it
11 may deem appropriate.”

12 “(c) CERTAIN INVESTMENT COMPANIES.—If the Se-
13 curities and Exchange Commission determines in accordance
14 with regulations issued by it, and certifies to the Secretary
15 not more than 60 days prior to the close of the taxable year
16 of a registered management investment company, that such
17 investment company is principally engaged in the furnishing
18 of capital to other corporations which are principally engaged
19 in the development or exploitation of inventions, technological
20 improvements, new processes, or products not previously gen-
21 erally available, such investment company may, in the com-
22 putation of 50 per centum of the value of its assets under
23 subparagraph (A) of subsection (b) (3) for any quarter
24 of such taxable year, include the value of any securities of
25 an issuer, notwithstanding the fact that such investment com-

pany holds more than 10 per centum of the outstanding voting securities of such issuer, but only if the investment company has not continuously held any security of such issuer (or of any predecessor company of such issuer as determined under regulations prescribed by the Secretary) for 10 or more years preceding such quarter of such taxable year. The provisions of this subsection shall not apply at the close of any quarter of a taxable year to an investment company if at the close of such quarter more than 25 per centum of the value of its total assets is represented by securities of issuers with respect to each of which the investment company holds more than 10 per centum of the outstanding voting securities of such issuer and in respect of each of which or any predecessor thereof the investment company has continuously held any security for 10 or more years preceding such quarter unless the value of its total assets so represented is reduced to 25 per centum or less within 30 days after the close of such quarter. The terms used in this subsection shall have the same meaning as in subsection (b) (3) of this section. For the purposes of this subsection, unless the Securities and Exchange Commission determines otherwise, a corporation shall be considered to be principally engaged in the development or exploitation

1 of inventions, technological improvements, new processes,
2 or products not previously generally available, for at least
3 10 years after the date of the first acquisition of any security
4 in such corporation or any predecessor thereof by such in-
5 vestment company if at the date of such acquisition the
6 corporation or its predecessor was principally so engaged,
7 and an investment company shall be considered at any date
8 to be furnishing capital to any company whose securities it
9 holds if within 10 years prior to such date it has acquired
10 any of such securities, or any securities surrendered in ex-
11 change therefor, from such other company or predecessor
12 thereof. For the purposes of the certification hereunder, the
13 Securities and Exchange Commission shall have authority
14 to issue such rules, regulations and orders, and to conduct
15 such investigations and hearings, either public or private, as
16 it may deem appropriate.”

17 (b) TECHNICAL AMENDMENT. Section 361 (b) (3)
18 (A) is hereby amended by inserting after “the total assets
19 of the taxpayer and” the following: “, except and to the
20 extent provided in subsection (c),”.

21 (c) EFFECTIVE DATE.—The amendments made by this
22 section shall be applicable only with respect to taxable years
23 beginning after December 31, 1950.

1 SEC. 337. EXCHANGES AND DISTRIBUTIONS IN OBEDIENCE TO
 2 ORDERS OF SECURITIES AND EXCHANGE COMMIS-
 3 SION.

4 (a) DEFINITION OF SYSTEM GROUP.—Section 373

5 (d) (1) (relating to the definition of the term “system
 6 group”) is hereby amended to read as follows:

7 “(1) At least 90 per centum of each class of the
 8 stock (other than (A) stock which is preferred as to both
 9 dividends and assets, and (B) stock which is limited
 10 and preferred as to dividends but which is not preferred
 11 as to assets but only if the total value of such stock
 12 is less than 1 per centum of the aggregate value of all
 13 classes of stock which are not preferred as to both divi-
 14 dends and assets) of each of the corporations (except the
 15 common parent corporation) is owned directly by one
 16 or more of the other corporations; and”.

17 (b) EFFECTIVE DATE.—The amendment made by sub-
 18 section (a) shall be applicable with respect to taxable years
 19 affected by an exchange or distribution made after December
 20 31, 1947.

21 SEC. 338. TAXATION OF BUSINESS INCOME OF STATE COLLEGES
 22 AND UNIVERSITIES.

23 (a) AMENDMENT OF SECTION 421 (b).—Section 421

24 (b) (1) (organizations subject to tax under Supplement U)
 25 is hereby amended to read as follows:

1 “(1) ORGANIZATIONS TAXABLE AS CORPORA-
2 TIONS.—

3 “(A) Organizations exempt under section 101
4 (1), (6), (7) and (14).—The taxes imposed by
5 subsection (a) (1) shall apply in the case of any
6 organization (other than a church, a convention or
7 association of churches, or a trust described in para-
8 graph (2)) which is exempt, except as provided in
9 this supplement, from taxation under this chapter
10 by reason of paragraph (1), (6), or (7) of section
11 101. Such taxes shall also apply in the case of a
12 corporation described in section 101 (14) if the
13 income is payable to an organization which itself is
14 subject to the tax imposed by subsection (a) or to a
15 church or to a convention or association of churches.

16 “(B) State colleges and universities.—The
17 taxes imposed by subsection (a) (1) shall apply in
18 the case of any college or university which is an
19 agency or instrumentality of any government or any
20 political subdivision thereof, or which is owned or
21 operated by a government or any political subdivision
22 thereof or by any agency or instrumentality of any
23 one or more governments or political subdivisions.
24 Such taxes shall also apply in the case of any cor-

1 poration wholly owned by one or more such colleges
2 or universities.”

3 (b) *UNRELATED TRADE OR BUSINESS*.—Section 422

4 (b) (definition of unrelated trade or business) is hereby
5 amended as follows:

6 (1) By inserting after “under section 101” the
7 following: “(or, in the case of an organization described
8 in section 421 (b) (1) (B), to the exercise or perform-
9 ance of any purpose or function described in section
10 101 (6))”.

11 (2) By inserting in paragraph (2) thereof after
12 “section 101 (6)” the following: “or in the case of a
13 college or university described in section 421 (b) (1)
14 (B)”.

15 (c) *EFFECTIVE DATE*.—The amendments made by this
16 section shall be applicable only with respect to taxable years
17 beginning after December 31, 1951.

18 **SEC. ~~343~~ 339. FAMILY PARTNERSHIPS.**

19 (a) *DEFINITION OF PARTNER*.—Section 3797 (a) (2)
20 is hereby amended by adding at the end thereof the follow-
21 ing: “A person shall be recognized as a partner for income
22 tax purposes if he owns a capital interest in a partnership in
23 which capital is a material income-producing factor, whether
24 or not such interest was derived by purchase or gift from
25 any other person.”

1 (b) ALLOCATION OF PARTNERSHIP INCOME.—Sup-
2 plement F of chapter 1 is hereby amended by adding at
3 the end thereof the following new section:

4 **“SEC. 191. FAMILY PARTNERSHIPS.**

5 “In the case of any partnership interest created by
6 gift, the distributive share of the donee under the partner-
7 ship agreement shall be includible in his gross income, except
8 to the extent that such share is determined without allow-
9 ance of reasonable compensation for services rendered to
10 the partnership by the donor, and except to the extent that
11 the portion of such share attributable to donated capital is
12 proportionately greater than the share of the donor attribut-
13 able to the donor’s capital. The distributive share of a part-
14 ner in the earnings of the partnership shall not be dimin-
15 ished because of absence due to military service. For the
16 purpose of this section, an interest purchased by one mem-
17 ber of a family from another shall be considered to be created
18 by gift from the seller, and the fair market value of the pur-
19 chased interest shall be considered to be donated capital.
20 The ‘family’ of any individual shall include only his spouse,
21 ancestors, and lineal descendants, and any trust for the
22 primary benefit of such persons.”

23 (c) ~~EFFECTIVE DATE.~~—The amendments made by this
24 section shall be applicable with respect to taxable years
25 beginning after December 31, 1950. The determination

1 as to whether a person shall be recognized as a partner for
2 income tax purposes for any taxable year beginning before
3 January 1, 1951 shall be made as if this section had not
4 been enacted and without inferences drawn from the fact
5 that this section is not expressly made applicable with
6 respect to taxable years beginning before January 1, 1951.

7 (c) *EFFECTIVE DATE.*—

8 (1) *GENERAL RULE.*—*Except as otherwise provided*
9 *in this subsection, the amendments made by this section*
10 *shall be applicable only with respect to taxable years be-*
11 *ginning after December 31, 1950.*

12 (2) *RETROACTIVE APPLICATIONS.*—*At the elec-*
13 *tion of a taxpayer made in accordance with regulations*
14 *prescribed by the Secretary, the amendments made by*
15 *this section shall also be applicable with respect to such*
16 *taxable years beginning after December 31, 1938, and*
17 *before January 1, 1951, as are specified by the taxpayer*
18 *in making such election. Such election for any taxable*
19 *year shall not be valid unless, prior to the expiration*
20 *of ninety days after the filing of such election (or such*
21 *longer period as the Secretary may by regulations pre-*
22 *scribe) each family partner of the taxpayer files, in*
23 *accordance with such regulations, a written consent to*
24 *the application of such amendments to his taxable years*
25 *corresponding to the taxable years for which the election*

1 is made by the taxpayer. In lieu of such consent by
2 any family partner, there may be paid, under regula-
3 tions prescribed by the Secretary and within the time
4 provided for filing such consent, an amount equal to
5 the deficiency and interest which would be assessed with
6 respect to such family partner if he filed such consent.
7 Such election, and any consent filed in respect of such
8 election, shall be applicable only to such partnerships
9 as are specified in the election. For the purpose of
10 this subsection, the term "family partner" means any
11 person who upon the filing of such consent would be
12 liable for a deficiency attributable to income considered,
13 but for the application of the amendments made by this
14 section, as income of the taxpayer. The period of limi-
15 tations provided in sections 275 and 276 of the Internal
16 Revenue Code on the making of assessments and the
17 beginning of distraint or a proceeding in court for
18 collection shall with respect to any deficiency and inter-
19 est thereon resulting from any such election or consent
20 include one year immediately following the date such
21 election or consent is filed, and such assessment and
22 collection may be made notwithstanding any provision
23 of law or any rule of law which otherwise would prevent
24 such assessment and collection. If an election by a tax-
25 payer should be filed for a taxable year for which allow-

1 *ance of credit or refund of an overpayment is barred*
2 *(at the time of such filing) by any law or rule of law,*
3 *any consent filed by a family partner of the taxpayer*
4 *with respect to such year shall be void.*

5 (3) *TAXABLE YEAR OF PARTNER DIFFERENT*
6 *FROM TAXABLE YEAR OF PARTNERSHIP.—In applying*
7 *paragraphs (1) and (2) of this subsection where the*
8 *taxable year of the taxpayer or a family partner is*
9 *different from the taxable year of the partnership—*

10 (A) *if a taxable year of the partnership ending*
11 *in 1951 ends within or with a taxable year of the*
12 *taxpayer or a family partner which began before*
13 *January 1, 1951, the amendments made by this*
14 *section shall be applicable, with respect to the dis-*
15 *tributive shares of income derived by the taxpayer*
16 *and the family partners from such taxable year of*
17 *the partnership, only pursuant to the provisions of*
18 *paragraph (2) of this subsection, notwithstanding*
19 *that paragraph (1) of this subsection might other-*
20 *wise be applicable to some of the partners.*

21 (B) *if a taxable year of the partnership end-*
22 *ing in 1939 ended within or with a taxable year of*
23 *the taxpayer or a family partner which began before*
24 *January 1, 1939, the amendments made by this sec-*
25 *tion shall not be applicable with respect to any of*

the distributive shares of income derived by the taxpayer and the family partners from such taxable year of the partnership, notwithstanding that paragraph (2) of this subsection might otherwise be applicable to some of the partners.

SEC. 340. WAR LOSSES.

(a) TAX UPON WAR LOSS RECOVERY.—Section 127

(c) (relating to recoveries included in gross income) is hereby amended to read as follows:

“(c) RECOVERIES.—

“(1) GENERAL RULE.—Upon the recovery in the taxable year of any money or property in respect of property considered under subsection (a) as destroyed or seized in any prior taxable year, the amount of such recovery shall be included in gross income to the extent provided in paragraph (2), unless the provisions of paragraph (3) are applicable to the taxable year pursuant to an election made by the taxpayer under the provisions of paragraph (5).

“(2) INCLUSION IN GROSS INCOME.—

“(A) Amount of Recovery.—The amount of the recovery of any money or property in respect of property considered under subsection (a) as destroyed or seized in any prior taxable year shall be an amount equal to the aggregate of such money and

1 *the fair market value of such property, determined*
2 *as of the date of the recovery.*

3 *“(B) Amount of Gain Includible.—To the*
4 *extent that the amount of the recovery plus the*
5 *aggregate of the amounts of previous such recoveries*
6 *do not exceed that part of the aggregate of the allow-*
7 *able deductions in prior taxable years on account*
8 *of the destruction or seizure of property described*
9 *in subsection (a) which did not result in a reduc-*
10 *tion of any tax of the taxpayer under this chapter*
11 *or chapter 2, such amount shall not be includible in*
12 *gross income and shall not be deemed gain upon*
13 *the involuntary conversion of property as a result*
14 *of its destruction or seizure. To the extent that such*
15 *amount plus the aggregate of the amounts of pre-*
16 *vious such recoveries exceed that part of the aggregate*
17 *of such deductions, which did not result in a reduc-*
18 *tion of any tax of the taxpayer under this chapter*
19 *or chapter 2 and do not exceed that part of the*
20 *aggregate of such deductions which did result in*
21 *a reduction of any tax of the taxpayer under this*
22 *chapter or chapter 2, such amount shall be included*
23 *in gross income but shall not be deemed a gain*
24 *upon the involuntary conversion of property as a*
25 *result of its destruction or seizure. To the extent*

1 *that such amount plus the aggregate of the amounts*
2 *of previous such recoveries exceed the aggregate of*
3 *the allowable deductions in prior taxable years on*
4 *account of the destruction or seizure of property*
5 *described in subsection (a), such amount shall be*
6 *considered a gain upon the involuntary conversion*
7 *of property as a result of its destruction or seizure*
8 *and shall be recognized or not recognized as provided*
9 *in section 112 (f). If for any previous taxable*
10 *year the taxpayer chooses under subsection (b) to*
11 *treat any obligations and liabilities as discharged*
12 *or satisfied out of the property or interest described*
13 *in subsection (a), and if such obligations and*
14 *liabilities were not so discharged or satisfied, the*
15 *amount of such obligations and liabilities treated as*
16 *discharged or satisfied under subsection (b) shall*
17 *be considered for the purposes of this section as a*
18 *deduction by reason of this section which did not*
19 *result in a reduction of any tax of the taxpayer*
20 *under this chapter or chapter 2. For the purposes*
21 *of this paragraph an allowable deduction for any*
22 *taxable year on account of the destruction or seizure*
23 *of property described in subsection (a) shall, to*
24 *the extent not allowed in computing the tax of the*

1 taxpayer for such taxable year, be considered an
2 allowable deduction which did not result in a reduc-
3 tion of any tax of the taxpayer under this chapter
4 or chapter 2.

5 “(3) TAX ADJUSTMENT MEASURED BY PRIOR
6 BENEFITS.—If the provisions of this paragraph are
7 applicable to the taxable year pursuant to an election
8 made by the taxpayer under the provisions of para-
9 graph (5)—

10 “(A) Amount of Recovery.—The amount of
11 the recovery in the taxable year of any money or
12 property in respect of property considered under
13 subsection (a) as destroyed or seized in any prior
14 taxable year shall be an amount equal to the aggre-
15 gate of such money and the fair market value of
16 such property, determined as of the date of the
17 recovery. For the purpose of this paragraph, in the
18 case of the recovery of the same property or interest
19 considered under subsection (a) as destroyed or
20 seized, the fair market value of such property or
21 interest shall not exceed the adjusted basis (for de-
22 termining loss) of such property or interest in the
23 hands of the taxpayer on the date of the loss.

24 “(B) Adjustment for Prior Tax Bene-
25 fits.—That part of the amount of the recovery, in

1 *respect of any property considered under subsection*
2 *(a) as destroyed or seized, which is not in excess of*
3 *the allowable deductions in prior taxable years on*
4 *account of such destruction or seizure of the property*
5 *(the amount of such allowable deductions being*
6 *first reduced by the aggregate amount of any prior*
7 *recoveries in respect of the same property) shall not*
8 *be included in gross income for the taxable year of*
9 *the recovery for the purpose of computing the tax*
10 *under this chapter and chapter 2; but there shall*
11 *be added to, and assessed and collected as a part of,*
12 *the tax under this chapter for the taxable year of*
13 *the recovery the total increase in the tax under this*
14 *chapter and chapter 2 for all taxable years which*
15 *would result by decreasing, in an amount equal to*
16 *such part of the recovery, such deductions allowable*
17 *in the prior taxable years with respect to the de-*
18 *struction or seizure of the property. Such increase*
19 *in the tax for each such year so resulting shall be*
20 *computed in accordance with regulations prescribed*
21 *by the Secretary. Such regulations shall give effect*
22 *to previous recoveries of any kind with respect to*
23 *any prior year; and shall provide for the case where*
24 *there was no tax for the prior year, but shall other-*
25 *wise treat the tax previously determined for any*

1 year in accordance with the principles set forth in
 2 section 3801 (d). All credits allowable against the
 3 tax for any year and all carry-overs and carry-
 4 backs affected by so decreasing the allowable deduc-
 5 tions shall be taken into account in computing the
 6 increase in the tax.

7 “(C) Gain Upon Recovery.—The amount of
 8 any recovery or part thereof, in respect of property
 9 considered under subsection (a) as destroyed or
 10 seized which is not subject to the provisions of sub-
 11 paragraph (B) shall be considered for the taxable
 12 year of the recovery as gain on the involuntary con-
 13 version of property as a result of its destruction or
 14 seizure and shall be recognized or not recognized as
 15 provided in section 112 (f).

16 “(D) Recoveries Treated as Gross Income for
 17 Certain Purposes.—For the purposes of sections 51,
 18 52, and 3801 (b) the recovery in the taxable year
 19 of any money or property in respect of property
 20 considered under subsection (a) as destroyed or
 21 seized in any prior taxable year shall be deemed to
 22 be an item includible in gross income for the taxable
 23 year in which the recovery is made.

24 “(4) RESTORATION OF VALUE OF INVESTMENTS
 25 REFERABLE TO DESTROYED OR SEIZED PROPERTY.—
 26 For the purpose of this subsection the restoration in

1 whole or in part of the value of any interest described
2 in subsection (a) (3) by reason of any recovery of
3 money or property in respect of property to which such
4 interest related and which was considered under subsec-
5 tion (a) (1) or (2) as destroyed or seized shall be
6 deemed a recovery of property in respect of property
7 considered under subsection (a) as destroyed or seized.
8 In applying paragraph (3) such restoration shall be
9 treated as the recovery of the same interest considered
10 under subsection (a) as destroyed or seized.

11 “(5) *ELECTION BY TAXPAYER FOR APPLICATION*
12 *OF PARAGRAPH (3).*—If the taxpayer elects to have
13 the provisions of paragraph (3) applicable to any tax-
14 able year in which he recovered any money or property
15 in respect of property considered under subsection (a)
16 as destroyed or seized, the provisions of paragraph (3)
17 shall be applicable to all taxable years of the taxpayer
18 beginning after December 31, 1940, other than a taxable
19 year for which, at the time of making such election, a
20 refund or credit of the entire amount of any overpayment
21 (resulting from an application of paragraph (3) to such
22 year) would be prevented by section 322 or by the
23 provisions of any other law or rule of law. Such
24 election shall be made in accordance with regulations
25 prescribed by the Secretary. If pursuant to such election
26 the provisions of paragraph (3) are applicable to any

1 taxable year, then the time for assessment and col-
 2 lection of—

3 “(A) the amount to be added to the tax for such
 4 year under the provisions of paragraph (3), and

5 “(B) any deficiency for such year or for any
 6 other taxable year, to the extent attributable to basis
 7 of the recovered property being determined under
 8 the provisions of subsection (d) (2),

9 shall not expire prior to the expiration of two years
 10 following the time of the making of such election, and
 11 such amount and such deficiency may be assessed at
 12 any time prior to the expiration of such period notwith-
 13 standing any law or rule of law which would otherwise
 14 prevent such assessment. In the case of any taxable year
 15 ending before the date of the making by the taxpayer of
 16 an election under this paragraph, no interest shall be paid
 17 on any overpayment resulting from the making of such
 18 election, and no interest shall be assessed or collected with
 19 respect to the amount specified in clause (A) or with
 20 respect to any deficiency specified in clause (B), for any
 21 period prior to the expiration of six months following
 22 the date of the making of such election by the taxpayer.”

23 (b) BASIS OF RECOVERED PROPERTY.—Section 127
 24 (d) (relating to basis of recovered property) is hereby
 25 amended to read as follows:

1 “(d) *BASIS OF RECOVERED PROPERTY.*—

2 “(1) *IN GENERAL.*—The unadjusted basis of
3 property recovered in respect of property considered as
4 destroyed or seized under subsection (a) shall be deter-
5 mined under this subsection. Such basis shall be an
6 amount equal to the fair market value of such property,
7 determined as of the date of the recovery, reduced by
8 an amount equal to the excess of the aggregate of such
9 fair market value and the amounts of previous recoveries
10 of money or property in respect of property considered
11 under subsection (a) as destroyed or seized over the
12 aggregate of the allowable deductions in prior taxable
13 years on account of the destruction or seizure of property
14 described in subsection (a), and increased by that por-
15 tion of the amount of the recovery which under subsection
16 (c) is treated as a recognized gain from the involuntary
17 conversion of property. Upon application of the tax-
18 payer, the aggregate of the bases (determined under the
19 preceding sentence) of any properties recovered in respect
20 of properties considered under subsection (a) as de-
21 stroyed or seized may be allocated among the properties
22 so recovered in such manner as the Secretary may deter-
23 mine under regulations prescribed by him, and the

1 amounts so allocated to any such property so recovered
2 shall be the unadjusted basis of such property in lieu of
3 the unadjusted basis of such property determined under
4 the preceding sentence.

5 “(2) *PROPERTY RECOVERED IN TAXABLE YEAR*
6 *TO WHICH SUBSECTION (c) (3) IS APPLICABLE.*—If
7 property is recovered in a taxable year to which the
8 provisions of subsection (c) (3) are applicable pursuant
9 to an election made under the provisions of subsection
10 (c) (5), the basis of such property shall be (in lieu of
11 the amount determined under paragraph (1) of this sub-
12 section) an amount equal to the value at which such
13 property is included in the amount of the recovery under
14 subsection (c) (3) (A), reduced by such part of the
15 gain under subsection (c) (3) (C) which is not recog-
16 nized as provided in section 112 (f).”

17 (c) *CREDIT FOR FOREIGN TAXES.*—Section 131 (a)
18 (relating to allowance of credit for taxes of foreign countries
19 and possessions of the United States) is hereby amended by
20 inserting after “section 102” the following: “and except the
21 additional tax imposed for the taxable year under the pro-
22 visions of section 127 (c) (3)”.

23 (d) *EFFECTIVE DATES.*—The amendments made by
24 this section shall be applicable to taxable years beginning after
25 December 31, 1940.

1 SEC. 341. DEDUCTION OF EXPENDITURES FOR MINE EXPLORA-
2 TION.

3 (a) DEDUCTION OF MINE EXPLORATION EXPENDI-
4 TURES.—Section 23 (relating to deductions from gross in-
5 come) is hereby amended by adding at the end thereof the
6 following new subsection:

7 “(ff) DEDUCTION OF EXPLORATION EXPENDI-
8 TURES.—

9 “(1) IN GENERAL.—In the case of expenditures
10 paid or incurred during the taxable year for the purpose
11 of ascertaining the existence, location, extent, or quality
12 of any deposit of ore or other mineral, and paid or
13 incurred prior to the beginning of the development stage
14 of the mine or deposit, so much of such expenditures as
15 does not exceed \$75,000. This subsection shall apply
16 only with respect to the amount of such expenditures
17 which, but for this subsection, would not be allowable as
18 a deduction for the taxable year. This subsection shall
19 not apply to expenditures for the acquisition or improve-
20 ment of property of a character which is subject to the
21 allowance for depreciation provided in section 23 (l),
22 but allowances for depreciation shall be considered, for
23 the purposes of this subsection, as expenditures paid or
24 incurred. In no case shall this subsection apply with
25 respect to amounts paid or incurred for the purpose of

1 *ascertaining the existence, location, extent, or quality of*
2 *any deposit of oil or gas.*

3 “(2) *ELECTION OF TAXPAYER.*—*If the taxpayer*
4 *elects, in accordance with regulations prescribed by the*
5 *Secretary, to treat as deferred expenses any portion of*
6 *the amount deductible for the taxable year under para-*
7 *graph (1), such portion shall not be deductible under*
8 *paragraph (1) but shall be deductible on a ratable basis*
9 *as the units of produced ores or minerals discovered or*
10 *explored by reason of such expenditures are sold. An*
11 *election made under this paragraph for any taxable*
12 *year shall be binding for such year.*

13 “(3) *LIMITATION.*—*This subsection shall not apply*
14 *to any amounts paid or incurred in any taxable year if*
15 *in any four preceding years the taxpayer, or any indi-*
16 *vidual or corporation who has transferred to the tax-*
17 *payer any mineral property under circumstances which*
18 *make the provisions of paragraph (7), (8), (11), (13),*
19 *(15), (17), (20), or (22) of section 113 (a) appli-*
20 *cable to such transfer, has either (A) been allowed a*
21 *deduction under paragraph (1) of this subsection or*
22 *(B) made the election provided under paragraph*
23 *(2) of this subsection.*

1 “(4) *ADJUSTED BASIS OF MINE OR DEPOSIT.*—

2 *The amount of expenditures which are treated under*
3 *paragraph (2) as deferred expenses shall be taken into*
4 *account in computing the adjusted basis of the mine or*
5 *deposit, but such amounts, and the adjustments to basis*
6 *provided in section 113 (b) (1) (M) shall be disre-*
7 *garded in determining the adjusted basis of the property*
8 *for the purpose of computing a deduction for depletion*
9 *under section 114.”*

10 *(b) ADJUSTED BASIS FOR DETERMINING GAIN OR*
11 *LOSS UPON SALE OR EXCHANGE.*—Section 113 (b) (1)
12 *(relating to adjusted basis of property) is hereby amended*
13 *by adding at the end thereof the following:*

14 “(M) for amounts allowed as deductions as
15 deferred expenses under section 23 (ff) (2) (relat-
16 ing to certain exploration expenditures) and result-
17 ing in a reduction of the taxpayer's taxes under
18 this chapter, but not less than the amounts allowable
19 under such section for the taxable year and prior
20 years.”

21 *(c) EFFECTIVE DATE.*—The amendments made by this
22 section shall be applicable to taxable years ending after
23 December 31, 1950.

1 SEC. 342. CORPORATE LIQUIDATIONS.

2 (a) TREATMENT OF GAIN.—Section 115 (relating to
3 distributions by corporations) is hereby amended by adding
4 at the end thereof the following new subsection:

5 “(n) LIQUIDATION WITH DISTRIBUTION OF STOCK
6 IN REAL ESTATE CORPORATION.—If a corporation, pur-
7 suant to a plan of liquidation, exchanges part of its assets
8 consisting of unimproved real estate solely for the entire
9 stock of a newly organized corporation and within a period
10 of twenty-four months from the date of adoption of the
11 plan of liquidation all of the assets of such corporation
12 together with the stock in such new corporation are distributed
13 in liquidation, the amounts so distributed shall be deemed
14 amounts distributed in complete liquidation of such corpora-
15 tion and the recognized gain, if any, to the shareholders from
16 such liquidation shall be treated as a capital gain, despite
17 any other provision of this chapter. This subsection shall
18 apply only—

19 “(1) if the business of the old corporation is dis-
20 continued,

21 “(2) if the corporation to which the unimproved
22 real estate was transferred was organized and is operated
23 for the sole purpose of holding title to such real estate
24 and collecting income from the leasing or sale thereof,
25 and

26 “(3) if there was a sound business reason for

1 organizing such new corporation to hold title to the un-
2 improved real estate.”

3 (b) *EFFECTIVE DATE.*—The amendment made by this
4 section shall apply to taxable years beginning after December
5 31, 1947.

6 SEC. 343. DEFINITION OF EMPLOYEE.

7 (a) *AMENDMENT OF SECTION 3797 (a).*—Section 3797
8 (a) is amended by adding at the end thereof the following
9 new paragraph:

10 “(20) *EMPLOYEE.*—For the purpose of applying
11 the provisions of chapter 1 with respect to contributions
12 to or under a stock bonus, pension, profit-sharing, or
13 annuity plan, and with respect to distributions under such
14 a plan or by a trust forming part of such a plan, the
15 term ‘employee’ shall include a full-time life insurance
16 salesman who is considered an employee for the purpose
17 of subchapter A of chapter 9, or, in the case of services
18 performed before January 1, 1951, who would be con-
19 sidered an employee if his services were performed
20 during 1951.”

21 (b) *EFFECTIVE DATE.*—The amendment made by this
22 section shall be applicable with respect to taxable years be-
23 ginning after December 31, 1938.

TITLE IV—EXCISE TAXES

Part I—Tax on Admissions and Cabarets

SEC. 401. REMOVAL OF TAX ON FREE ADMISSIONS.

Section 1700 (a) (1) (relating to tax on single or season tickets) is hereby amended by striking out the second and fourth *second, fourth, and fifth* sentences thereof.

SEC. 402. EXEMPTIONS FROM ADMISSIONS TAX.

(a) REINSTATEMENT OF PREWAR EXEMPTIONS.—

Notwithstanding section 541 (b) of the Revenue Act of 1941, the provisions of section 1701 (relating to exemptions from the admissions tax) shall apply to amounts paid on or after the effective date specified in section 403 of this Act for admissions on or after such date.

~~(b) AMENDMENT OF SECTION 1701 (a).~~—Section 1701 ~~(a)~~ ~~(relating to religious, educational, or charitable entertainments)~~ is hereby amended to read as follows:

~~“(a) RELIGIOUS, EDUCATIONAL, OR CHARITABLE ENTERTAINMENTS, ETC.—~~

~~(1) IN GENERAL.~~—Except as provided in paragraph ~~(2)~~, any admissions all the proceeds of which inure—

~~“(A) exclusively to the benefit of religious, educational, or charitable institutions, societies, or organizations, societies for the prevention of cruelty to children or animals, or societies or organizations~~

1 conducted for the sole purpose of maintaining sym-
2 phony orchestras and receiving substantial support
3 from voluntary contributions or of maintaining a
4 cooperative or community center moving-picture
5 theatre—if no part of the net earnings thereof inures
6 to the benefit of any private stockholder or indi-
7 vidual;

8 “(B) exclusively to the benefit of National
9 Guard organization, Reserve Officers’ associations
10 or organizations, posts or organizations of war vet-
11 erans, or auxiliary units or societies of any such posts
12 or organizations, if such posts, organizations, units,
13 or societies are organized in the United States or any
14 of its possessions, and if no part of their net earn-
15 ings inures to the benefit of any private stockholder
16 or individual; or

17 “(C) exclusively to the benefit of a police or
18 fire department of any city, town, village, or other
19 municipality, or exclusively to a fund for the sole
20 benefit of members of such a police or fire depart-
21 ment or the dependents or heirs of such members.

22 “(2) NONEXEMPT ADMISSIONS.—The exemption
23 provided under paragraph (1) shall not apply in the
24 case of admissions to (A) any athletic game or exhibi-
25 tion unless the proceeds inure exclusively to the benefit

1 of an elementary or secondary school, ~~(B)~~ wrestling
 2 matches, prize fights, or boxing, sparring, or other pugi-
 3 listic matches or exhibitions, or ~~(C)~~ carnivals, rodeos, or
 4 circuses in which any professional performer or operator
 5 participates for compensation.”

6 *(b) AMENDMENT OF SECTION 1701 (a) AND (b).—*
 7 *Subsections (a) and (b) of section 1701 (relating to exemp-*
 8 *tions from admissions tax) are hereby amended to read as*
 9 *follows:*

10 “*(a) CERTAIN RELIGIOUS, EDUCATIONAL, OR CHARI-*
 11 *TABLE ENTERTAINMENTS, ETC.—*

12 “*(1) IN GENERAL.—Except as provided in para-*
 13 *graph (2), any admissions all the proceeds of which*
 14 *inure—*

15 “*(A) exclusively to the benefit of—*

16 “*(i) a church or a convention or association*
 17 *of churches;*

18 “*(ii) an educational institution which is*
 19 *exempt under section 101 (6) or which is an*
 20 *educational institution of a government or*
 21 *political subdivision thereof, if such organization*
 22 *normally maintains a regular faculty and cur-*
 23 *riculum and normally has a regularly organ-*
 24 *ized body of pupils or students in attendance at*

1 *the place where its educational activities are*
2 *regularly carried on;*

3 “(iii) a corporation or any community
4 chest, fund, or foundation organized and oper-
5 ated exclusively for charitable purposes, exempt
6 under section 101 (6), if such corporation or
7 organization is supported, in whole or in part,
8 by funds contributed by the United States or
9 any State or political subdivision thereof, or is
10 primarily supported by contributions from the
11 general public;

12 “(iv) a society or organization conducted
13 for the sole purpose of maintaining symphony
14 orchestras or operas and receiving substantial
15 support from voluntary contributions—

16 *if no part of the net earnings thereof inures to the*
17 *benefit of any private stockholder or individual;*

18 “(B) exclusively to the benefit of National
19 Guard organizations, Reserve officers’ associations
20 or organizations, posts or organizations of war vet-
21 erans, or auxiliary units or societies of any such
22 posts or organizations, if such posts, organizations,
23 units, or societies are organized in the United States.

1 or any of its possessions, and if no part of their net
2 earnings inures to the benefit of any private stock-
3 holder or individual; or

4 “(C) exclusively to the benefit of a police or
5 fire department of any city, town, village, or any
6 municipality or exclusively to a retirement, pension,
7 or disability fund for the sole benefit of members of
8 such a police or fire department or to a fund for the
9 heirs of such members.

10 “(2) NONEXEMPT ADMISSIONS.—The exemption
11 provided under paragraph (1) shall not apply in the
12 case of admissions to (A) any athletic game or exhibi-
13 tion unless the proceeds inure exclusively to the benefit
14 of an elementary or secondary school, (B) wrestling
15 matches, prize fights, or boxing, sparring, or other pugi-
16 listic matches or exhibitions, (C) carnivals, rodeos, or
17 circuses in which any professional performer or operator
18 participates for compensation, or (D) any motion picture
19 exhibition.

20 “(b) AGRICULTURAL FAIRS.—Any admissions to agri-
21 cultural fairs if no part of the net earnings thereof inure to
22 the benefit of any stockholders or members of the association
23 conducting the same—if the proceeds therefrom are used ex-
24 clusively for the improvement, maintenance, and operation of
25 such agricultural fairs; or”.

1 (c) ADMISSIONS TO MUNICIPAL SWIMMING POOLS,
 2 ETC.—Section 1701 is hereby amended by striking out the
 3 period at the end of subsection (c) and inserting in lieu
 4 thereof “; or” and by adding at the end of such section the
 5 following new ~~subsection~~ *subsections*:

6 “(d) MUNICIPAL SWIMMING POOLS, ETC.—Any ad-
 7 missions to swimming pools, bathing beaches, skating rinks,
 8 or other places providing facilities for physical exercise, op-
 9 erated by any State or political subdivision thereof or by the
 10 United States or any agency or instrumentality thereof—if
 11 the proceeds therefrom inure exclusively to the benefit of
 12 the State, political subdivision, United States, agency, or
 13 instrumentality. For the purposes of this subsection the
 14 term ‘State’ includes Alaska, Hawaii, and the District of
 15 ~~Columbia.~~ *Columbia*; or

16 “(e) (1) HOME AND GARDEN TOURS.—Any admis-
 17 sion to a home or garden which is temporarily opened to the
 18 general public as part of a program conducted by a society or
 19 organization to permit the inspection of historical homes and
 20 gardens—if no part of the net earnings thereof inures to the
 21 benefit of any private stockholder or individual.

22 “(2) HISTORIC SITES.—Any admissions to historic sites,
 23 houses, and shrines, and museums conducted in connection
 24 therewith, maintained and operated by a society or organiza-
 25 tion devoted to the preservation and maintenance of such

1 *historic sites, houses, shrines, and museums—if no part of the*
 2 *net earnings thereof inures to the benefit of any private stock-*
 3 *holder or individual.”*

4 **SEC. 403. EFFECTIVE DATE OF AMENDMENTS RELATING**
 5 **TO ADMISSIONS.**

6 The amendments made by sections 401 and 402 shall
 7 be applicable with respect to amounts paid on or after the
 8 first day of the first month which begins more than ten
 9 days after the date of the enactment of this Act for admis-
 10 sions on or after such date.

11 **SEC. 404. TAX ON CABARETS, ROOF GARDENS, ETC.**

12 (a) BALLROOMS AND DANCE HALLS.—Section 1700
 13 (e) (1) (relating to tax on cabarets, roof gardens, etc.) is
 14 hereby amended by inserting after the second sentence
 15 thereof the following new sentence: “In no case shall such
 16 term include any ballroom, dance hall, or other similar place
 17 where the serving or selling of food, refreshment, or mer-
 18 chandise is merely incidental, unless such place would be
 19 considered, without the application of the preceding sentence,
 20 as a ‘roof garden, cabaret, or other similar place’.”

21 (b) EFFECTIVE DATE.—The amendment made by
 22 subsection (a) shall be applicable only with respect to
 23 periods after 10 antemeridian on the first day of the first
 24 month which begins more than ten days after the date of the
 25 enactment of this Act.

Part II—Tax on Cigarettes

SEC. 421. TAX ON CIGARETTES.

(a) INCREASE IN RATE.—Section 2000 (c) (2) (tax on cigarettes) is hereby amended by striking out “\$3.50” and inserting in lieu thereof “\$4” “\$3.50 per thousand” and inserting in lieu thereof “\$4 per thousand until January 1, 1954, and \$3.50 per thousand on and after January 1, 1954”.

(b) EFFECTIVE DATE.—The amendment made by subsection (a) shall take effect on the first day of the first month which begins more than 10 days after the date of the enactment of this Act.

SEC. 422. FLOOR STOCKS TAX AND FLOOR STOCKS REFUND ON CIGARETTES.

Section 2000 (relating to tax on tobacco, etc.) is hereby amended by adding at the end thereof the following new subsection subsections:

“(f) 1951 FLOOR STOCKS TAX.—

“(1) TAX.—Upon cigarettes subject to tax under this section weighing not more than three pounds per thousand, which on the effective date of section 421 of the Revenue Act of 1951 are held by any person for sale, there shall be levied, assessed, collected, and paid a floor stocks tax at a rate equal to the increase

1 in rate of tax made applicable to such cigarettes by the
2 Revenue Act of 1951.

3 “(2) RETURNS.—Every person required by this
4 subsection to pay any floor stocks tax shall, on or before
5 the end of the month next following the month in which
6 section 421 (a) of the Revenue Act of 1951 takes effect,
7 under such regulations as the Secretary shall prescribe,
8 make a return and pay such tax, except that in the case
9 of such cigarettes held by manufacturers and importers,
10 the Secretary may collect the tax with respect to such
11 cigarettes by means of stamps rather than return, and
12 in such case may make an assessment against such manu-
13 facturer or importer having cigarette tax stamps on
14 hand on the effective date of such section for the differ-
15 ence between the amount paid for such stamps and the
16 increased rate imposed by such section.

17 “(3) LAWS APPLICABLE.—All provisions of law,
18 including penalties, applicable in respect of the taxes
19 imposed by section 2000, shall, insofar as applicable
20 and not inconsistent with this subsection, be applicable
21 with respect to the floor stocks tax imposed by this
22 ~~subsection.~~ *subsection.*

23 “(g) FLOOR STOCKS REFUNDS ON CIGARETTES.—

24 “(1) IN GENERAL.—With respect to cigarettes,
25 weighing not more than three pounds per thousand, upon

1 *which the tax imposed by subsection (c) (2), or upon*
2 *which floor stocks tax imposed by subsection (f), has*
3 *been paid, and which, on January 1, 1954, are held by*
4 *any person and intended for sale, or are in transit from*
5 *foreign countries or insular possessions of the United*
6 *States to any person in the United States for sale, there*
7 *shall be credited or refunded to such person (without*
8 *interest), subject to such regulations as may be prescribed*
9 *by the Secretary, an amount equal to the difference*
10 *between the tax paid on such cigarettes and the tax made*
11 *applicable to such articles on January 1, 1954, if claim*
12 *for such credit or refund is filed with the Secretary prior*
13 *to April 1, 1954.*

14 “(2) *LIMITATIONS ON ELIGIBILITY FOR CREDIT*
15 *OR REFUND.—No person shall be entitled to credit or*
16 *refund under paragraph (1) unless (A) such person,*
17 *for such period or periods both before and after Janu-*
18 *ary 1, 1954 (but not extending beyond one year there-*
19 *after), as the Secretary shall by regulations prescribe,*
20 *makes and keeps, and files with the Secretary such*
21 *records of inventories, sales, and purchases as may be*
22 *prescribed in such regulations; and (B) such person*
23 *establishes to the satisfaction of the Secretary, with*
24 *respect to the cigarettes for which credit or refund is*
25 *claimed by him under this section, that on and after*

1 *January 1, 1954, and until the expiration of three*
 2 *months thereafter, the price at which cigarettes of such*
 3 *class were sold (until a number equal at least to the*
 4 *number on hand on January 1, 1954, were sold)*
 5 *reflected, in such manner as the Secretary may by*
 6 *regulations prescribe, the amount of the tax reduction.*

7 “(3) *PENALTY AND ADMINISTRATIVE PROCE-*
 8 *DURES.—All provisions of law, including penalties,*
 9 *applicable in respect of internal revenue taxes on ciga-*
 10 *rettes shall, insofar as applicable and not inconsistent*
 11 *with this subsection, be applicable in respect of the credits*
 12 *and refunds provided for in this subsection to the same*
 13 *extent as if such credits or refunds constituted credits or*
 14 *refunds of such taxes.”*

15 **SEC. 423. REDUCTION OF TAX ON SNUFF AND CHEWING**
 16 **TOBACCO.**

17 (a) *REDUCTION IN RATE.—Section 2000 (a) (relat-*
 18 *ing to tax on tobacco and snuff) is hereby amended by striking*
 19 *out paragraphs (1) and (2) and inserting in lieu thereof*
 20 *the following:*

21 “(1) *SNUFF AND CHEWING TOBACCO.—On snuff,*
 22 *manufactured of tobacco or any substitute for tobacco,*
 23 *ground, dry, damp, pickled, scented, or otherwise, of all*
 24 *descriptions, when prepared for use; and on all scrap*

chewing, plug, twist, fine-cut, or cavendish tobacco; a tax of 10 cents per pound.

“(2) *SMOKING TOBACCO*.—On all smoking tobacco, cut or granulated, of every description; on tobacco reduced into a condition to be consumed, or in any manner other than the ordinary mode of drying and curing, prepared for sale or consumption, even if prepared without the use of any machine or instrument, and without being pressed or sweetened; and on all fine-cut shorts and refuse scraps, clippings, cuttings, and sweepings of tobacco; a tax of 18 cents per pound.”

(b) *EFFECTIVE DATE*.—The amendment made by subsection (a) shall take effect on the first day of the first month which begins more than 10 days after the date of the enactment of this Act.

Part III—Retailers’ Excise Taxes

SEC. 431. TAX ON LIGHTERS.

Section 2400 (relating to retailers’ excise tax on jewelry, etc.) is hereby amended by striking out in the first sentence thereof the words “and binoculars.” and inserting in lieu thereof the following: “binoculars; and mechanical lighters for cigarettes, cigars, or pipes.”

1 SEC. 432 431. RETAILERS' EXCISE TAX ON TOILET PREP-
2 ARATIONS.

3 (a) BABY OILS, ETC.—Section 2402 (a) is hereby
4 amended by adding at the end thereof the following new sen-
5 tence: "The tax imposed by this subsection shall not apply
6 to lotion, oil, powder, or other article intended to be used or
7 applied only in the care of babies."

8 (b) SALES TO BARBER SHOPS, ETC.—Section 2402
9 (b) is hereby amended to read as follows:

10 "(b) BEAUTY PARLORS, ETC.—For the purposes of
11 subsection (a), the sale of any article described in such sub-
12 section to any person operating a barbershop, beauty parlor,
13 or similar establishment for use in the operation thereof, or
14 for resale, shall not be considered as a sale at retail. The
15 resale of such article at retail by such person shall be subject
16 to the provisions of subsection (a)."

17 SEC. 433 432. EFFECTIVE DATE OF PART III.

18 The amendments made by this part shall apply only
19 to articles sold on or after the first day of the first month
20 which begins more than ten days after the date of the enact-
21 ment of this Act.

Part IV—Diesel Fuel**SEC. 441. DIESEL FUEL USED IN HIGHWAY VEHICLES.**

~~(a)~~ **IMPOSITION OF TAX.**—The Internal Revenue Code is hereby amended by adding after chapter 49 the following new chapter:

“CHAPTER 20—DIESEL FUEL**“SEC. 2450. TAX ON DIESEL FUEL.**

“There is hereby imposed a tax of 2 cents a gallon upon any liquid ~~(other than any product taxable under section 3412)~~—

“~~(1)~~ sold by any person to an owner, lessee, or other operator of a diesel-powered highway vehicle, for use as a fuel in such vehicle, or

“~~(2)~~ used by any person as a fuel in a diesel-powered highway vehicle unless there was a taxable sale of such liquid under clause ~~(1)~~.

“SEC. 2451. RETURNS AND PAYMENT.

“~~(a)~~ **REQUIREMENT.**—Every person liable for tax under this chapter shall make returns and pay the taxes due to the collector for the district in which is located his principal place of business, or if he has no principal place of business

1 in the United States, then to the collector at Baltimore,
2 Maryland. Such returns shall contain such information and
3 be made at such times and in such manner as the Secretary
4 may by regulations prescribe.

5 “(b) INTEREST.—The tax shall, without assessment or
6 notice, be due and payable to the collector at the time pre-
7 scribed for filing the return. If the tax is not paid when
8 due, there shall be added as part of the tax interest at the
9 rate of 6 per centum per annum from the time when the
10 tax became due until paid.

11 “SEC. 2452. CREDITS AND REFUNDS.

12 “(a) NON-TAXABLE USE OR SALE BY VENDEE.—A
13 credit against tax under this chapter, or a refund, may be
14 allowed or made to a person in the amount of tax paid by
15 him under this chapter with respect to his sale of any liquid
16 to a vendee for use as fuel in a diesel-powered highway
17 vehicle, if such person establishes, in accordance with regu-
18 lations prescribed by the Secretary, that—

19 “(1) the vendee used such liquid otherwise than
20 as fuel in such a vehicle or resold such liquid, and

21 “(2) such person has repaid or agreed to repay
22 the amount of such tax to such vendee, or has obtained
23 the consent of the vendee to the allowance of the credit
24 or refund.

1 No interest shall be allowed with respect to any amount of
 2 tax credited or refunded under the provisions of this sub-
 3 section.

4 “(b) **PROOF REQUIRED IN CASE OF CERTAIN OVER-**
 5 **PAYMENTS.**—No overpayment of tax under this chapter
 6 shall be credited or refunded (otherwise than under sub-
 7 section (a)) in pursuance of a court decision or otherwise,
 8 unless the person who paid the tax establishes, in accord-
 9 ance with regulations prescribed by the Secretary, (1) that
 10 he has not included the tax in the price of the article with
 11 respect to which it was imposed, or collected the amount
 12 of tax from the vendee, or (2) that he has repaid the amount
 13 of the tax to the ultimate purchaser of the article, or files
 14 with the Secretary written consent of such ultimate pur-
 15 chaser to the allowance of the credit or refund.

16 **“SEC. 2453. TAX-FREE SALES.**

17 “Under regulations prescribed by the Secretary, no tax
 18 under this chapter shall be imposed with respect to the
 19 sale of any liquid for the exclusive use of any State, Terri-
 20 tory of the United States, or any political subdivision of the
 21 foregoing, or the District of Columbia, or with respect to
 22 the use by any of the foregoing of any liquid as fuel in a
 23 diesel-powered highway vehicle.

1 **“SEC. 2454. APPLICABILITY OF ADMINISTRATIVE PROVI-**
 2 **SIONS.**

3 ~~“All provisions of law (including penalties) applicable~~
 4 in respect of the taxes imposed by section 2700 shall, inso-
 5 far as applicable and not inconsistent with this chapter, be
 6 applicable in respect of the taxes imposed by this chapter.

7 **“SEC. 2455. RULES AND REGULATIONS.**

8 ~~“The Secretary shall prescribe and publish all needful~~
 9 rules and regulations for the enforcement of this chapter.”

10 ~~(b) EFFECTIVE DATE.—~~The amendment made by sub-
 11 section ~~(a)~~ shall take effect on the first day of the first
 12 month which begins more than ten days after the date of
 13 the enactment of this Act.

14 **Part V IV—Liquor**

15 **SEC. 451 441. INCREASE IN TAX ON DISTILLED SPIRITS**
 16 **FROM \$9 TO \$10.50 PER GALLON.**

17 **(a) DISTILLED SPIRITS GENERALLY.—**Section 2800

18 **(a) (1)** is hereby amended by striking out “\$6” and in-
 19 serting in lieu thereof “\$10.50”, *and by inserting after the*
 20 *first sentence the following new sentence: “On and after*
 21 *January 1, 1954, the rate of tax imposed by this paragraph*
 22 *shall be \$9 in lieu of \$10.50.”.*

23 **(b) IMPORTED PERFUMES CONTAINING DISTILLED**
 24 **SPIRITS.—**Section 2800 **(a) (3)** is hereby amended by
 25 striking out “\$6” and inserting in lieu thereof “\$10.50”,

1 *and by adding at the end thereof the following new sentence:*
 2 *“On and after January 1, 1954, the rate of tax imposed by*
 3 *this paragraph shall be \$9 in lieu of \$10.50.”.*

4 (c) FLOOR STOCKS TAX.—Section 2800 is amended
 5 by inserting at the end thereof the following new subsection:

6 “(1) 1951 FLOOR STOCKS TAX.—

7 “(1) TAX.—Upon all distilled spirits upon which
 8 the internal revenue tax imposed by law has been paid,
 9 and which on the effective date of section ~~451~~ 441 (a) of
 10 the Revenue Act of 1951, are held and intended for sale
 11 or for use in the manufacture or production of any article
 12 intended for sale, there shall be levied, assessed, col-
 13 lected, and paid a floor stocks tax of \$1.50 on each proof-
 14 gallon, and a proportionate tax at a like rate on all frac-
 15 tional parts of such proof-gallon.

16 “(2) RETURNS.—Under such regulations as the
 17 Secretary shall prescribe, every person required by
 18 paragraph (1) to pay any floor stocks tax shall, on or
 19 before the end of the thirtieth day following the effective
 20 date of section ~~451~~ 441 (a) of the Revenue Act of 1951
 21 make a return and shall, on or before the first day of
 22 the third month following such effective date, pay such
 23 tax. Payment of the tax shown to be due may be ex-
 24 tended to a date not later than the first day of the tenth
 25 month following the effective date of such section upon

1 the filing of a bond for payment thereof in such form
2 and amount and with such surety or sureties as the
3 Secretary may prescribe.

4 “(3) LAWS APPLICABLE.—All provisions of law,
5 including penalties, applicable in respect of internal
6 revenue taxes on distilled spirits shall, insofar as appli-
7 cable and not inconsistent with this subsection, be appli-
8 cable in respect of the floor stocks tax imposed here-
9 under. For the purposes of this subsection the term
10 ‘distilled spirits’ shall include products produced in such
11 manner that the person producing them is a rectifier
12 within the meaning of section 3254 (g).”

13 SEC. ~~452~~ 442. WINES.

14 (a) INCREASE IN RATE OF TAX.—

15 (1) STILL WINES.—So much of section 3030 (a)
16 (1) (A) (tax on still wines, etc.) as precedes the sec-
17 ond sentence thereof is hereby amended to read as
18 follows:

19 “(A) Imposition.—Upon all still wines, in-
20 cluding vermouth, and all artificial or imitation
21 wines or compounds sold as still wine, produced in
22 or imported into the United States on or after the
23 effective date of section ~~452~~ 442 (a) of the Revenue
24 Act of 1951, or which on such date were on any
25 winery premises or other bonded premises or in

transit thereto or at any custom house, there shall be levied, collected, and paid taxes at rates as follows, when sold, or removed for consumption or sale:

“On wines containing not more than 14 per centum of absolute alcohol, 17 cents per wine-gallon, the per centum of alcohol under this section to be reckoned by volume and not by weight, *except that on and after January 1, 1954, the rate shall be 15 cents per wine-gallon;*

“On wines containing more than 14 per centum and not exceeding 21 per centum of absolute alcohol, 67 cents per wine-gallon, *except that on and after January 1, 1954, the rate shall be 60 cents per wine-gallon;*

“On wines containing more than 21 per centum and not exceeding 24 per centum of absolute alcohol, \$2.25 per wine-gallon, *except that on and after January 1, 1954, the rate shall be \$2 per wine-gallon;*

“All such wines containing more than 24 per centum of absolute alcohol by volume shall be classed as distilled spirits and shall pay tax accordingly.”

(2) SPARKLING WINES, LIQUEURS, AND COR-

1 DIALS.—Section 3030 (a) (2) (tax on sparkling wines,
2 liqueurs, and cordials) is hereby amended as follows:

3 (A) By striking out “after June 30, 1940, or
4 which on July 1, 1940” and inserting in lieu thereof
5 “on or after the effective date of section ~~452~~ 442 (a)
6 of the Revenue Act of 1951, or which on such date”;

7 ~~(B) By striking out “10 cents” and inserting~~
8 in lieu thereof “17 cents”; and

9 ~~(C) By striking out “5 cents” each place it~~
10 occurs and inserting in lieu thereof “12 cents”.

11 (B) by striking out “10 cents on each one-half
12 pint or fraction thereof” and inserting in lieu thereof
13 “17 cents on each one-half pint or fraction thereof,
14 except that on and after January 1, 1954, the rate
15 shall be 15 cents on each one-half pint or fraction
16 thereof”; and

17 (C) by striking out “5 cents on each one-half
18 pint or fraction thereof” each place that it occurs and
19 inserting in lieu thereof “12 cents on each one-half
20 pint or fraction thereof, except that on and after
21 January 1, 1954, the rate shall be 10 cents on each
22 one-half pint or fraction thereof”.

23 (b) FLOOR STOCKS.—Subchapter F of chapter 26 is
24 hereby amended by inserting at the end thereof the following
25 new section:

1 **"SEC. 3195. 1951 FLOOR STOCKS TAX ON WINES.**

2 “(a) Upon all wines upon which the internal revenue
3 tax imposed by law has been paid, and which on the effective
4 date of section ~~452~~ 442 (a) of the Revenue Act of 1951 are
5 held and intended for sale or for use in the manufacture or
6 production of an article intended for sale, there shall be levied,
7 assessed, collected, and paid a floor stocks tax at rates equal
8 to the increases in rates of tax made applicable to such articles
9 by section ~~452~~ 442 (a) of the Revenue Act of 1951.

10 “(b) RETURNS.—Under such regulations as the Secre-
11 tary shall prescribe, every person required by subsection (a)
12 to pay any floor stocks tax shall, on or before the end of the
13 thirtieth day following the effective date of section ~~452~~ 442
14 (a) of the Revenue Act of 1951 make a return and shall, on
15 or before the first day of the third month following such effec-
16 tive date, pay such tax. Payment of the tax shown to be due
17 may be extended to a date not later than the first day of the
18 tenth month following the effective date of section ~~452~~ 442
19 (a) of the Revenue Act of 1951, upon the filing of a bond for
20 payment thereof in such form and amount and with such
21 surety or sureties as the Secretary may prescribe.

22 “(c) LAWS APPLICABLE.—All provisions of law, in-
23 cluding penalties, applicable in respect of the taxes imposed
24 by section 3030 (a) shall, insofar as applicable and not in-

1 consistent with this section, be applicable with respect to the
2 floor stocks tax imposed by subsection (a).”

3 **SEC. ~~453~~ 443. FERMENTED MALT LIQUOR.**

4 (a) **INCREASE IN TAX ON FERMENTED MALT LIQUORS**
5 **FROM \$8 TO \$9 PER BARREL.**—Section 3150 (a) (tax
6 on fermented malt liquors) is hereby amended (1) by strik-
7 ing out “\$7” and inserting in lieu thereof “\$9”, and (2)
8 by striking out the second sentence ~~thereof and inserting~~
9 *in lieu thereof the following: “On and after January 1,*
10 *1954, the tax imposed by the preceding sentence shall be at*
11 *the rate of \$8 in lieu of \$9.”.*

12 (b) **FLOOR STOCKS TAX.**—Section 3150 is hereby
13 amended by inserting at the end thereof the following new
14 subsection:

15 “(g) **1951 FLOOR STOCKS TAX.**—

16 “(1) **TAX.**—Upon all fermented malt liquors upon
17 which the internal revenue tax imposed by law has been
18 paid, and which on the effective date of section ~~453~~ 443
19 (a) of the Revenue Act of 1951 are held by any person
20 and intended for sale there shall be levied, assessed,
21 collected, and paid a floor stocks tax at a rate of \$1 per
22 barrel of 31 gallons.

23 “(2) **RETURNS.**—Under such regulations as the
24 Secretary shall prescribe, every person required by para-
25 graph (1) to pay any floor stocks tax shall, on or before

the end of the thirtieth day following the effective date of section ~~453~~ 443 (a) of the Revenue Act of 1951 make a return and shall, on or before the first day of the third month following such effective date, pay such tax. Payment of the tax shown to be due may be extended to a date not later than the first day of the tenth month following the effective date of section ~~453~~ 443 (a) of the Revenue Act of 1951, upon the filing of a bond for payment thereof in such form and amount and with such surety or sureties as the Secretary may prescribe.

“(3) LAWS APPLICABLE.—All provisions of law, including penalties, applicable in respect of the taxes imposed by subsection (a) shall, insofar as applicable and not inconsistent with this subsection, be applicable with respect to the floor stocks tax imposed by this subsection.”

SEC. 444. FLOOR STOCKS REFUNDS.

(a) AMENDMENT OF SECTION 1656 (a).—Section 1656 (a) (relating to floor stocks refunds on distilled spirits, etc.) is amended to read as follows:

“(a) IN GENERAL.—With respect to any article upon which tax is imposed under section 2800 (a), 3030 (a), or 3150 (a), upon which internal revenue tax (including floor stocks tax) at the applicable rate prescribed by such section has been paid, and which, on January 1, 1954, is

1 held by any person and intended for sale or for use in the
2 manufacture or production of any article intended for sale,
3 there shall be credited or refunded to such person (without
4 interest), subject to such regulations as may be prescribed by
5 the Secretary, an amount equal to the difference between the
6 tax so paid and the rate made applicable to such articles
7 on and after January 1, 1954, by such section, if claim for
8 such credit or refund is filed with the Secretary prior to
9 February 1, 1954."

10 (b) AMENDMENT OF SECTION 1656 (b).—Section
11 1656 (b) (relating to limitations on eligibility for floor
12 stocks refunds on distilled spirits, etc.) is amended by striking
13 out "the rate reduction date" wherever it appears therein
14 and inserting in lieu thereof "January 1, 1954".

15 SEC. 454 445. CLERICAL AMENDMENT.

16 The table contained in section 1650 (relating to the war
17 tax rates of certain miscellaneous taxes) is hereby amended
18 by striking out the following:

"2800 (a) (1).....	Distilled Spirits.....	\$6 per gallon.....	\$9 per gallon.
2800 (a) (3).....	Imported Perfumes Containing Distilled Spirits.....	\$6 per gallon.....	\$9 per gallon.
3030 (a) (1).....	Still Wines: (1) Not over 14% of Alcohol... (2) Over 14% and not over 21% of Alcohol. (3) Over 21% and not over 24% of Alcohol.	10 cents per gallon..... 40 cents per gallon..... \$1 per gallon.....	15 cents per gallon. 60 cents per gallon. \$2 per gallon.
3030 (a) (2).....	Sparkling Wines, Liqueurs, and Cordials: (1) Champagne or Sparkling Wine. (2) Artificially Carbonated Wine. (3) Liqueurs, Cordials, Etc....	10 cents per half-pint or fraction thereof. 5 cents per half-pint or fraction thereof. 5 cents per half-pint or fraction thereof.	15 cents per half-pint or fraction thereof. 10 cents per half-pint or fraction thereof. 10 cents per half-pint or fraction thereof.
3150.....	Fermented Malt Liquors.....	\$7 per barrel.....	\$8 per barrel."

1 SEC. 455 446. EFFECTIVE DATE OF PART V IV.

2 The amendments made by this part shall take effect on
3 the first day of the first month which begins more than
4 10 days after the date of the enactment of this Act.

5 Part VI V—Occupational Taxes

6 SEC. 461 451. DEALERS IN LIQUORS.

7 (a) WHOLESALE DEALERS IN LIQUORS.—Section
8 3250 (a) (1) (relating to occupational tax on wholesale
9 dealers in liquors) is hereby amended by striking out “\$110”
10 and inserting in lieu thereof “~~\$200~~” “\$200, *except that on*
11 *and after July 1, 1954, such special tax shall be \$110*”.

12 (b) RETAIL DEALERS IN LIQUORS.—Section 3250
13 (b) (1) (relating to occupational tax on retail dealers in
14 liquors) is hereby amended by striking out “\$27.50” and
15 inserting in lieu thereof “~~\$50~~” “\$50, *except that on and*
16 *after July 1, 1954, such special tax shall be \$27.50*”.

17 (c) WHOLESALE DEALERS IN MALT LIQUORS.—Sec-
18 tion 3250 (d) (1) (relating to tax on wholesale dealers in
19 malt liquors) is hereby amended by striking out “\$55” and
20 inserting in lieu thereof “~~\$100~~” “\$100, *except that on and*
21 *after July 1, 1954, such special tax shall be \$55*”.

1 SEC. 462 452. DRAWBACK IN THE CASE OF DISTILLED
 2 SPIRITS USED IN THE MANUFACTURE OF
 3 CERTAIN NONBEVERAGE PRODUCTS.

4 ~~(a) DRAWBACK.—Section 3250 (1) (5) (relating to~~
 5 ~~manufacture of certain nonbeverage products)~~ is hereby
 6 amended by striking out “\$3.75” and inserting in lieu
 7 thereof “\$9.50”.

8 ~~(b) EFFECTIVE DATE.—The amendment made by sub-~~
 9 ~~section (a) shall be applicable only with respect to distilled~~
 10 ~~spirits used on or after the first day of the first month which~~
 11 ~~begins more than ten days after the date of the enactment~~
 12 ~~of this Act, and on which the internal revenue tax was paid~~
 13 ~~at the rate of \$10.50 specified in section 2800 (a) (1) or~~
 14 ~~at a rate equivalent to such rate.~~

15 ~~(c) TECHNICAL AMENDMENT.—Section 309 (c) of the~~
 16 ~~Revenue Act of 1943 is hereby amended by adding at the~~
 17 ~~end thereof the following: “Subsection (b) shall not be~~
 18 ~~applicable in any case in which drawback is allowed at the~~
 19 ~~rate of \$9.50 under section 3250 (1) (5) of the Internal~~
 20 ~~Revenue Code, as amended by the Revenue Act of 1951.”~~

21 *(a) DRAWBACK.—Section 3250 (1) (5) (relating to*
 22 *manufacturers or producers of designated nonbeverage prod-*
 23 *ucts) is amended to read as follows:*

24 “(5) DRAWBACK.—In the case of distilled spirits

1 *tax-paid and used as provided in this subsection, a*
2 *drawback shall be allowed—*

3 “(A) at the rate of \$6 on each proof gallon
4 upon which tax is paid at a rate of \$9 per proof
5 gallon prior to the effective date of section 452 of
6 the Revenue Act of 1951,

7 “(B) at the rate of \$9.50 on each proof gallon
8 upon which tax is paid at a rate of \$10.50 per
9 proof gallon on and after the effective date of section
10 452 of the Revenue Act of 1951, and

11 “(C) at the rate of \$8 on each proof gallon
12 upon which tax is paid at a rate of \$9 per proof
13 gallon after December 31, 1953.

14 *Such drawback shall be due and payable quarterly*
15 *upon filing of a proper claim with the Secretary. No*
16 *claim under this subsection shall be allowed unless filed*
17 *with the Secretary within the three months next succeed-*
18 *ing the quarter for which the drawback is claimed.”*

19 (b) *EFFECTIVE DATE.*—*The amendment made by sub-*
20 *section (a) shall be applicable only with respect to distilled*
21 *spirits used on or after the first day of the first month which*
22 *begins more than ten days after the date of the enactment*
23 *of this Act.*

1 SEC. 463 453. TAX ON COIN-OPERATED GAMING DEVICES.

2 Section 3267 (a) (tax on coin-operated gaming de-
3 vices) is hereby amended by striking out "\$150" wherever
4 appearing therein and inserting in lieu thereof "\$250".

5 SEC. 464. TAX ON BOWLING ALLEYS AND BILLIARD AND
6 POOL TABLES.

7 ~~(a) INCREASE IN RATE.~~—Section 3268 ~~(relating to~~
8 ~~rate of tax)~~ is hereby amended by striking out "\$10" and
9 inserting in lieu thereof "\$25".

10 ~~(b) CLERICAL AMENDMENT.~~—The table contained in
11 section 1650 ~~(relating to the war tax rates of certain mis-~~
12 ~~cellaneous taxes)~~ is hereby amended by striking out the
13 following:

["3268.....	Billiard and Pool Tables; and Bowling Alleys.	\$10 per year per table; \$10 per year per alley.	\$20 per year per table; \$20 per year per alley."]
-------------	--	--	---

14 SEC. 465 454. EFFECTIVE DATE OF PART VI V.

15 The amendments made by sections 461, 463, and 464
16 451 and 453 shall take effect on the first day of the first
17 month which begins more than ten days after the date of the
18 enactment of this Act. In the case of the year beginning
19 July 1, 1951, where the trade or business on which the tax
20 is imposed was commenced prior to the first day of the month
21 specified in the preceding sentence, the increase in tax re-
22 sulting from such amendments shall be reckoned propor-
23 tionately from the first day of such month to and including

1 the thirtieth day of June following and shall be due on, and
 2 payable on or before, the last day of the month specified in
 3 the preceding sentence.

4 **Part VII VI—Wagering**

5 **SEC. ~~471~~ 461. WAGERING TAXES.**

6 (a) IMPOSITION OF TAXES.—Subtitle B (relating to
 7 miscellaneous taxes) is hereby amended by inserting after
 8 chapter 27 the following new chapter:

9 **“CHAPTER 27A—WAGERING TAXES**

10 **“Subchapter A—Tax on Wagers**

11 **“SEC. 3285. TAX.**

12 “(a) WAGERS.—There shall be imposed on wagers, as
 13 defined in subsection (b), an excise tax equal to 10 per
 14 centum of the amount thereof.

15 “(b) DEFINITIONS.—For the purposes of this chapter—

16 “(1) The term ‘wager’ means (A) any wager
 17 with respect to a sports event or a contest placed with a
 18 person engaged in the business of accepting such wagers,
 19 (B) any wager placed in a wagering pool with respect
 20 to a sports event or a contest, if such pool is conducted
 21 for profit, and (C) any wager placed in a lottery con-
 22 ducted for profit.

23 “(2) The term ‘lottery’ includes the numbers game,
 24 policy, and similar types of wagering. The term does

1 not include (A) any game of a type in which usually
2 (i) the wagers are placed, (ii) the winners are deter-
3 mined, and (iii) the distribution of prizes or other
4 property is made, in the presence of all persons placing
5 wagers in such game, and (B) any drawing conducted
6 by an organization exempt from tax under section 101, if
7 no part of the net proceeds derived from such drawing
8 inures to the benefit of any private shareholder or
9 individual.

10 “(c) AMOUNT OF WAGER.—In determining the amount
11 of any wager for the purposes of this subchapter, all charges
12 incident to the placing of such wager shall be included;
13 except that if the taxpayer establishes, in accordance with
14 regulations prescribed by the Secretary, that an amount
15 equal to the tax imposed by this subchapter has been col-
16 lected as a separate charge from the person placing such
17 wager, the amount so collected shall be excluded.

18 “(d) PERSONS LIABLE FOR TAX.—Each person who is
19 engaged in the business of accepting wagers shall be liable
20 for and shall pay the tax under this subchapter on all wagers
21 placed with him. Each person who conducts any wagering
22 pool or lottery shall be liable for and shall pay the tax under
23 this subchapter on all wagers placed in such pool or lottery.

24 “(e) EXCLUSIONS FROM TAX.—No tax shall be im-
25 posed by this subchapter (1) on any wager placed with,

1 or on any wager placed in a wagering pool conducted by, a
2 parimutuel wagering enterprise licensed under State law,
3 and (2) on any wager placed in a coin-operated device with
4 respect to which an occupational tax is imposed by section
5 3267.

6 “(f) TERRITORIAL EXTENT.—The tax imposed by this
7 subchapter shall apply only to wagers (1) accepted in the
8 United States, or (2) placed by a person who is in the
9 United States (A) with a person who is a citizen or resident
10 of the United States, or (B) in a wagering pool or lottery
11 conducted by a person who is a citizen or resident of the
12 United States.

13 **“SEC. 3286. CREDITS AND REFUNDS.**

14 “(a) No overpayment of tax under this subchapter shall
15 be credited or refunded (otherwise than under subsection
16 (b)), in pursuance of a court decision or otherwise, unless
17 the person who paid the tax establishes, in accordance with
18 regulations prescribed by the Secretary, (1) that he has
19 not collected (whether as a separate charge or otherwise)
20 the amount of the tax from the person who placed the wager
21 on which the tax was imposed, or (2) that he has repaid the
22 amount of the tax to the person who placed such wager,
23 or unless he files with the Secretary written consent of the
24 person who placed such wager to the allowance of the credit
25 or the making of the refund. In the case of any laid-off

1 wager, no overpayment of tax under this subchapter shall
2 be so credited or refunded to the person with whom such
3 laid-off wager was placed unless he establishes, in accord-
4 ance with regulations prescribed by the Secretary, that the
5 provisions of the preceding sentence have been complied
6 with both with respect to the person who placed the laid-off
7 wager with him and with respect to the person who placed
8 the original wager.

9 “(b) Where any taxpayer lays off part or all of a wager
10 with another person who is liable for tax under this sub-
11 chapter on the amount so laid off, a credit against the tax
12 imposed by this subchapter shall be allowed, or a refund
13 shall be made to, the taxpayer laying off such amount. Such
14 credit or refund shall be in an amount which bears the same
15 ratio to the amount of tax which such taxpayer paid under
16 this subchapter on the original wager as the amount so laid
17 off bears to the amount of the original wager. Credit or
18 refund under this subsection shall be allowed or made only
19 in accordance with regulations prescribed by the Secretary;
20 and no interest shall be allowed with respect to any amount
21 so credited or refunded.

22 **“SEC. 3287. CERTAIN PROVISIONS MADE APPLICABLE.**

23 “All provisions of law, including penalties, applicable
24 with respect to any tax imposed by section 2700 shall,
25 insofar as applicable and not inconsistent with the provisions

1 of this subchapter, be applicable with respect to the tax
2 imposed by this subchapter. In addition to all other records
3 required pursuant to section 2709, each person liable for tax
4 under this subchapter shall keep a daily record showing the
5 gross amount of all wagers on which he is so liable.

6 **“Subchapter B—Occupational Tax**

7 **“SEC. 3290. TAX.**

8 “A special tax of \$50 per year shall be paid by each
9 person who is liable for tax under subchapter A or who is en-
10 gaged in receiving wagers for or on behalf of any person
11 so liable.

12 **“SEC. 3291. REGISTRATION.**

13 “(a) Each person required to pay a special tax under
14 this subchapter shall register with the collector of the
15 district—

16 “(1) his name and place of residence;

17 “(2) if he is liable for tax under subchapter A, each
18 place of business where the activity which makes him so
19 liable is carried on, and the name and place of resi-
20 dence of each person who is engaged in receiving wagers
21 for him or on his behalf; and

22 “(3) if he is engaged in receiving wagers for or on
23 behalf of any person liable for tax under subchapter
24 A, the name and place of residence of each such person.

25 “(b) Where subsection (a) requires the name and

1 place of residence of a firm or company to be registered,
2 the names and places of residence of the several persons
3 constituting the firm or company shall be registered.

4 “(c) In accordance with regulations prescribed by the
5 Secretary, the collector may require from time to time such
6 supplemental information from any person required to regis-
7 ter under this section as may be needful to the enforcement
8 of this chapter.

9 **“SEC. 3292. CERTAIN PROVISIONS MADE APPLICABLE.**

10 “Sections 3271, 3273 (a), 3275, 3276, 3277, 3279, and
11 3280 shall extend to and apply to the special tax imposed
12 by this subchapter and to the persons upon whom it is
13 imposed, and for that purpose any activity which makes a
14 person liable for special tax under this subchapter shall be
15 considered to be a business or occupation described in chap-
16 ter 27. No other provision of subchapter B of chapter 27
17 shall so extend or apply.

18 **“SEC. 3293. POSTING.**

19 “Every person liable for special tax under this sub-
20 chapter shall place and keep conspicuously in his principal
21 place of business the stamp denoting the payment of such
22 special tax; except that if he has no such place of business,
23 he shall keep such stamp on his person, and exhibit it, upon
24 request, to any officer or employee of the Bureau of Internal
25 Revenue.

1 **"SEC. 3294. PENALTIES.**

2 “(a) **FAILURE TO PAY TAX.**—Any person who does
3 any act which makes him liable for special tax under this
4 subchapter, without having paid such tax, shall, besides be-
5 ing liable to the payment of the tax, be fined not less than
6 \$1,000 and not more than \$5,000.

7 “(b) **FAILURE TO POST OR EXHIBIT STAMP.**—Any
8 person who, through negligence, fails to comply with section
9 3293, shall be liable to a penalty of \$50, and the cost of
10 prosecution. Any person who, through willful neglect or
11 refusal, fails to comply with section 3293, shall be liable to a
12 penalty of \$100, and the cost of prosecution.

13 “(c) **WILLFUL VIOLATIONS.**—The penalties prescribed
14 by section 2707 with respect to the tax imposed by section
15 2700 shall apply with respect to the tax imposed by this
16 subchapter.

17 **"Subchapter C—Miscellaneous Provisions**

18 **"SEC. 3297. APPLICABILITY OF FEDERAL AND STATE LAWS.**

19 “The payment of any tax imposed by this chapter with
20 respect to any activity shall not exempt any person from any
21 penalty provided by a law of the United States or of any
22 State for engaging in the same activity, nor shall the payment
23 of any such tax prohibit any State from placing a tax on the
24 same activity for State or other purposes.

1 **“SEC. 3298. INSPECTION OF BOOKS.**

2 “Notwithstanding section 3631, the books of account of
3 any person liable for tax under this chapter may be examined
4 and inspected as frequently as may be needful to the en-
5 forcement of this chapter.”

6 (b) **TECHNICAL AMENDMENT.**—Section 3310 (f)
7 (relating to discretion allowed the Commissioner with re-
8 spect to returns and payment of tax) is hereby amended by
9 inserting after “subchapter A of chapter 25,” the following:
10 “subchapter A of chapter 27A,”.

11 **SEC. 472 462. EFFECTIVE DATE OF PART VII VI.**

12 The tax imposed by subchapter A of chapter 27A, as
13 added by section ~~474~~ 461, shall apply only with respect to
14 wagers placed on or after the first day of the first month
15 which begins more than 10 days after the date of enactment
16 of this Act. No tax shall be payable under subchapter B of
17 chapter 27A, as added by section ~~474~~ 461, with respect to
18 any period prior to the first day of the first month which
19 begins more than 10 days after the date of enactment of this
20 Act. *In the case of any person who is liable for tax under*
21 *subchapter A of chapter 27A, as added by section 461, or*
22 *who is engaged in receiving wagers for or on behalf of any*
23 *person so liable, and who commenced the activity which makes*
24 *him subject to such tax, or who was engaged in receiving such*
25 *wagers, prior to the first day of the first month specified in*

1 *the preceding sentence, the tax under subchapter B of chapter*
 2 *27A, as added by section 461, shall be reckoned proportion-*
 3 *ately from the first day of such month to and including the*
 4 *thirtieth day of June following and shall be due on, and*
 5 *payable on or before, the last day of the month specified in*
 6 *the preceding sentence.*

7 **Part VIII VII—Manufacturers' Excise Taxes**

8 **SEC. 481 471. AUTOMOBILES, TRUCKS, AND PARTS OR AC-**
 9 **CESSORIES.**

10 **(a) INCREASE IN TAX ON TRUCKS.—Section 3403**

11 **(a)** **(tax on trucks, busses, etc.)** **is hereby amended by**
 12 **striking out “5 per centum” and inserting in lieu thereof**
 13 **“8 per centum” “8 per centum, except that on and after**
 14 **January 1, 1954, the rate shall be 5 per centum”.**

15 **(b) INCREASE IN TAX ON PASSENGER AUTOMOBILES**
 16 **AND MOTORCYCLES.—Section 3403 (b) (tax on automo-**
 17 **bile chassis and bodies, etc.) is hereby amended to read as**
 18 **follows:**

19 **~~“(b) OTHER CHASSIS AND BODIES, ETC.—~~**

20 **~~“(1) Other automobile chassis and bodies, chassis~~**
 21 **~~and bodies for trailers and semi-trailers (other than~~**
 22 **~~house trailers) suitable for use in connection with pas-~~**
 23 **~~senger automobiles, and motorcycles (including in each~~**
 24 **~~case parts or accessories therefor sold on or in connection~~**

1 therewith or with the sale thereof), except tractors, 10
2 per centum.

3 “(2) Chassis and bodies for house trailers (includ-
4 ing in each case parts or accessories therefor sold on or
5 in connection therewith or with the sale thereof), 7
6 per centum.

7 A sale of an automobile, trailer, or semi-trailer shall, for
8 the purposes of this subsection, be considered to be a sale of
9 the chassis and of the body.”

10 “(b) *OTHER CHASSIS AND BODIES, ETC.*—Other auto-
11 mobile chassis and bodies, chassis and bodies for trailers and
12 semitrailers (other than house trailers) suitable for use in con-
13 nection with passenger automobiles, and motorcycles (includ-
14 ing in each case parts or accessories therefor sold on or in
15 connection therewith or with the sale thereof), except tractors,
16 10 per centum, except that on and after January 1, 1954,
17 the rate shall be 7 per centum. A sale of an automobile,
18 trailer, or semitrailer shall, for the purposes of this subsection,
19 be considered to be a sale of the chassis and of the body.”

20 (c) *INCREASE IN TAX ON PARTS OR ACCESSORIES.*—
21 Section 3403 (c) (tax on parts or accessories for automomobiles,
22 etc.) is hereby amended by striking out “5 per centum”
23 and inserting in lieu thereof “~~5 per centum~~” “8 per centum,
24 except that on and after January 1, 1954, the rate shall
25 be 5 per centum”.

1 (d) REBUILT PARTS OR ACCESSORIES.—Section 3403

2 (c) (tax on parts or accessories) is hereby amended by
3 adding at the end thereof the following: “In determining
4 the sale price of a rebuilt automobile part or accessory there
5 shall be excluded from the price, in accordance with regula-
6 tions prescribed by the Secretary, the value of a like part or
7 accessory accepted in exchange.”

8 (e) TECHNICAL AMENDMENT.—Section 3403 (e)
9 (relating to certain credits against the tax imposed by section
10 3403) is hereby amended by striking out “in the case of an
11 article taxable under subsection (a), 5 per centum, and in
12 the case of an article taxable under subsection (b), 7 per
13 centum” and inserting in lieu thereof “~~in the case of an article~~
14 ~~taxable under subsection (a), 8 per centum, in the case of~~
15 ~~an article taxable under subsection (b) (1), 10 per centum,~~
16 ~~and in the case of an article taxable under subsection (b)~~
17 ~~(2), 7 per centum~~” “*in the case of an article taxable under*
18 *subsection (a) or subsection (b), the applicable percentage*
19 *rate of tax provided in such subsections*”.

20 (f) PARTS OR ACCESSORIES FOR FARM EQUIP-
21 MENT.—Section 3443 (a) (3) (A) is hereby amended
22 by striking out the period at the end of clause (v) and in-
23 serting in lieu thereof a semicolon, and by inserting after
24 clause (v) the following:

25 “(vi) in the case of articles taxable under

1 section 3403 (c) (other than spark plugs,
2 storage batteries, leaf springs, coils, timers, and
3 tire chains), used or resold for use as repair
4 or replacement parts or accessories for farm
5 equipment (other than equipment taxable
6 under subsection (a) or (b) of section
7 3403) ;”.

8 (g) EFFECTIVE DATE OF SUBSECTION (f).—The
9 amendment made by subsection (f) shall be effective with
10 respect to articles purchased (by the user thereof) on or
11 after the first day of the first month which begins more
12 than ten days after the date of the enactment of this Act.

13 (h) REMOVAL OF TAX ON TIRES FOR TOYS, ETC.—
14 Paragraph (1) of section 3400 (a) (relating to tax on
15 tires) is hereby amended by adding at the end thereof the
16 following: “The tax imposed by this paragraph shall not
17 apply to (A) tires which are not more than 20 inches in
18 diameter and not more than one and three-fourths inches
19 in cross-section, if such tires are of all-rubber construction
20 (whether hollow center or solid) without fabric or metal
21 reinforcement, or (B) tires of extruded tiring with internal
22 wire fastening agent.”

1 SEC. 482 472. NAVIGATION RECEIVERS SOLD TO THE
2 UNITED STATES.

3 (a) EXEMPTION ON SALES TO UNITED STATES OF
4 CERTAIN RADIO SETS.—Section 3404 (a) (relating to man-
5 ufacturers' excise tax on radio receiving sets, etc.) is hereby
6 amended by adding at the end thereof the following new sen-
7 tence: "No tax shall be imposed under this subsection with
8 respect to the sale to the United States for its exclusive use
9 of a communication, detection, or navigation receiver of the
10 type used in commercial, military, or marine installations."

11 (b) TAX-FREE SALES OF RADIO PARTS.—Section 3404
12 (b) (relating to manufacturers' excise tax on component
13 parts of radio receiving sets, etc.) is hereby amended by add-
14 ing at the end thereof the following new sentence: "Under
15 regulations prescribed by the Secretary, no tax shall be im-
16 posed under this subsection with respect to the sale of any
17 article for use by the vendee as material in the manufacture or
18 production of, or as a component part of, communication,
19 detection, or navigation receivers of the type used in com-
20 mercial, military, or marine installations if such receivers
21 are to be sold by the vendee to the United States for its
22 exclusive use. If any article sold tax-free to such vendee

1 is not so used by him, or being so used the receiver is not so
2 sold, the vendee shall be considered as the manufacturer or
3 producer of such article.”

4 (c) REFUND IN CASE OF USE OF PARTS.—Section
5 3443 (a) (1) (relating to credits and refunds) is hereby
6 amended to read as follows:

7 “(1) to a manufacturer or producer, in the amount
8 of any tax under this chapter which has been paid
9 with respect to the sale of—

10 “(A) any article (other than a tire, inner tube,
11 or automobile radio or television receiving set tax-
12 able under section 3404) purchased by him and
13 used by him as material in the manufacture or
14 production of, or as a component part of, an article
15 with respect to which tax under this chapter has
16 been paid, or which has been sold free of tax by
17 virtue of section 3442, relating to tax-free sales;

18 “(B) any article described in section 3404 (b)
19 purchased by him and used by him as material in
20 the manufacture or production of, or as a com-
21 ponent part of, communication, detection, or navi-
22 gation receivers of the type used in commercial,
23 military, or marine installations if such receivers
24 have been sold by him to the United States for its
25 exclusive use.”

1 (d) REFUND IN CASE OF RESALE TO UNITED
 2 STATES.—Section 3443 (a) (3) (A) is hereby amended
 3 by adding at the end thereof the following:

4 “(vii) in the case of a communication,
 5 detection, or navigation receiver of the type
 6 used in commercial, military, or marine installa-
 7 tions, resold to the United States for its ex-
 8 clusive use.”

9 (e) USE BY MANUFACTURER OF TAXABLE PARTS.—
 10 Section 3444 (b) (relating to tax on use by manufacturer of
 11 taxable articles) is hereby amended by adding at the end
 12 thereof the following: *“This to read as follows:*

13 *“(b) This section shall not apply with respect to the*
 14 *use by the manufacturer, producer, or importer of articles*
 15 *described in section 3404 (b) if such articles are used by*
 16 *him as material in the manufacture or production of, or as*
 17 *a component part of, communication, detection, or navi-*
 18 *gation receivers of the type used in commercial, military,*
 19 *or marine installations if such receivers are to be sold to the*
 20 *United States for its exclusive use.”*

21 (f) EFFECTIVE DATES.—The amendments made by
 22 subsections (a) and (b) shall take effect as provided in
 23 section 489 480. The amendments made by subsections (c)
 24 and (e) shall be applicable with respect to articles used in
 25 receivers sold to the United States on or after the first day of

1 the first month which begins more than ten days after the
2 date of the enactment of this Act, and the amendment made
3 by subsection (d) shall be applicable with respect to
4 articles resold to the United States on or after such
5 first day.

6 **SEC. 473. TAX-FREE SALES OF REFRIGERATOR COMPONENTS TO**
7 **WHOLESALERS FOR RESALE TO MANUFACTURERS.**

8 *Section 3405 (b) is hereby amended by inserting*
9 *“(hereinafter referred to as ‘refrigerating equipment’)” be-*
10 *fore the period at the end of the first sentence and by striking*
11 *out the second and third sentences and inserting in lieu*
12 *thereof the following: “Under regulations prescribed by the*
13 *Secretary, the tax under this subsection shall not apply in*
14 *the case of sales of any such refrigerator components by the*
15 *manufacturer, producer, or importer to (1) a manufac-*
16 *turer or producer of refrigerating equipment, or (2) a vendee*
17 *for resale to a manufacturer or producer of refrigerating*
18 *equipment if such components are in due course so resold.*
19 *If any such refrigerator components are resold by the manu-*
20 *facturer or producer to whom sold or resold otherwise than*
21 *on or in connection with, or with the sale of, complete re-*
22 *frigerating equipment manufactured or produced by him,*
23 *then for the purposes of this section such manufacturer or*
24 *producer shall be considered the manufacturer or producer*
25 *of the refrigerator components so resold by him.”*

1 **SEC. 483. REPEAL OF TAX ON CERTAIN SPORTING GOODS;**
2 **INCREASE IN TAX ON REMAINING SPORTING**
3 **GOODS.**

4 Section 3406 (a) (1) (relating to manufacturers' ex-
5 cise tax on sporting goods) is hereby amended to read as
6 follows:

7 “(1) **SPORTING GOODS.**—Badminton nets; badminton
8 rackets (measuring 22 inches over-all or more in length;
9 badminton racket frames (measuring 22 inches over-all or
10 more in length); badminton racket string; badminton shuttle-
11 cocks; badminton standards; baseballs; baseball bats (meas-
12 uring 26 inches or more in length); baseball body protectors
13 and shin guards; baseball gloves and mitts; baseball masks;
14 billiard and pool tables (measuring 45 inches over-all or
15 more in length); billiard and pool balls and cues for such
16 tables; bowling balls and pins; clay pigeons and traps for
17 throwing clay pigeons; croquet balls and mallets; curling
18 stones; deck tennis rings, nets, and posts; fishing rods, creels,
19 reels, and artificial lures, baits, and flies; golf bags (measur-
20 ing 26 inches or more in length); golf balls; golf clubs
21 (measuring 30 inches or more in length); polo balls; polo
22 mallets; skis; ski poles; snow shoes; squash balls; squash
23 rackets (measuring 22 inches over-all or more in length);
24 squash racket frames (measuring 22 inches over-all or more
25 in length); squash racket string; table tennis tables, balls,

1 nets, and paddles; tennis balls; tennis nets; tennis rackets
 2 (~~measuring 22 inches over all or more in length~~); tennis
 3 racket frames (~~measuring 22 inches over all or more in~~
 4 ~~length~~); tennis racket string; 15 per centum."

5 SEC. 474. SPORTING GOODS.

6 Section 3406 (a) (1) (relating to manufacturers' excise
 7 tax on sporting goods) is hereby amended to read as follows:

8 "(1) SPORTING GOODS.—Badminton nets; badminton
 9 rackets (measuring 22 inches over all or more in length);
 10 badminton racket frames (measuring 22 inches over all or
 11 more in length); badminton racket string; badminton shuttle-
 12 cocks; badminton standards; billiard and pool tables (meas-
 13 uring 45 inches over all or more in length); billiard and pool
 14 balls and cues for such tables; bowling balls and pins; clay
 15 pigeons and traps for throwing clay pigeons; cricket balls;
 16 cricket bats; croquet balls and mallets; curling stones; deck
 17 tennis rings, nets, and posts; golf bags (measuring 26 inches
 18 or more in length); golf balls; golf clubs (measuring 30 inches
 19 or more in length); lacrosse balls; lacrosse sticks; polo balls;
 20 polo mallets; skates; skis; ski poles; snow shoes; snow tobog-
 21 gans and sleds; squash balls; squash rackets (measuring 22
 22 inches over all or more in length); squash racket frames
 23 (measuring 22 inches over all or more in length); squash
 24 racket string; table tennis tables, balls, nets, and paddles;
 25 tennis balls; tennis nets; tennis rackets (measuring 22 inches

1 over all or more in length); tennis racket frames (measuring
 2 22 inches over all or more in length); tennis racket string;
 3 15 per centum; fishing rods, creels, reels, and artificial lures,
 4 baits, and flies; 10 per centum.”

5 SEC. 484 475. ADDITION OF CERTAIN ITEMS TO THE TAX
 6 ON ELECTRIC, GAS, AND OIL APPLIANCES;
 7 REMOVAL OF TAX ON ELECTRIC HEATING
 8 PADS ELECTRIC, GAS, AND OIL APPLIANCES.

9 (a) ITEMS SUBJECT TO TAX.—Section 3406 (a) (3)
 10 (relating to manufacturers’ excise tax on electric, gas, and
 11 oil appliances) is hereby amended (1) by inserting after
 12 “*Electric direct motor-driven fans and air circulators*” the
 13 following: “(not of the industrial type)”, (2) by striking out
 14 “*electric air heaters (not including furnaces)*” and inserting
 15 in lieu thereof “*electric air heaters (not including furnaces*
 16 *and electric air heaters of the blower type)*”, (3) by striking
 17 out “*electric heating pads and blankets*” and inserting in
 18 lieu thereof “*electric blankets, sheets, and spreads*”, and
 19 ~~(2)~~ (4) by inserting after “*juicers*,” the following: “and
 20 the following appliances of the household type: electric
 21 belt-driven fans; *electric exhaust blowers*; electric or gas
 22 clothes driers; electric door chimes; electric dehumidifiers;
 23 electric dishwashers; electric floor polishers and waxers;
 24 electric food choppers and grinders; electric hedge trim-
 25 mers; electric ice cream freezers; electric mangles; electric

1 motion or still picture projectors; electric pants pressers;
 2 electric shavers; electric vacuum cleaners; electric washing
 3 machines; electric garbage disposal units; and power lawn
 4 mowers;”.

5 (b) DETERMINATION OF SALE PRICE.—Section 3441
 6 (b) is hereby amended by striking out “or” at the end of
 7 clause (2), by inserting “or” at the end of clause (3), and
 8 by adding after clause (3) the following new clause:

9 “(4) sold at retail under an arrangement whereby
 10 the manufacturer negotiates the sale on behalf of the
 11 retailer;”.

12 **SEC. 485. ADJUSTMENTS OF TAX RATES ON PHOTOGRAPHIC**
 13 **APPARATUS AND FILM; REPEAL OF TAX ON**
 14 **CERTAIN ITEMS.**

15 ~~(a) ITEMS SUBJECT TO TAX.~~—Section 3406 ~~(a) (4)~~
 16 ~~(relating to the manufacturers’ excise tax on photographic~~
 17 ~~apparatus)~~ is hereby amended to read as follows:

18 “(4) PHOTOGRAPHIC APPARATUS.—Cameras and
 19 camera lenses, and unexposed photographic film in rolls
 20 (including motion picture film), 20 per centum. The
 21 tax imposed under this paragraph shall not apply to
 22 X-ray cameras, to cameras weighing more than four
 23 pounds exclusive of lens and accessories, to still camera
 24 lenses having a focal length of more than one hundred
 25 and twenty millimeters, to motion picture camera lenses

1 having a focal length of more than thirty millimeters, to
2 X-ray film, to film more than one hundred and fifty
3 feet in length, or to film more than twenty-five feet
4 in length and more than thirty millimeters in width.
5 Any person who acquires unexposed photographic film
6 not subject to tax under this paragraph and sells such
7 unexposed film in form and dimensions subject to tax
8 hereunder (or in connection with a sale cuts such film
9 to form and dimensions subject to tax hereunder) shall
10 for the purposes of this subsection be considered the
11 manufacturer of the film so sold by him."

12 (b) FLOOR STOCKS REFUNDS ON BULBS.—

13 (1) With respect to any photo-flash or other bulb
14 upon which the tax imposed under section 3406 (a)
15 (4) of the Internal Revenue Code has been paid, and
16 which on the effective date specified in section 489 of
17 this Act is held by any person and intended for sale, or
18 for use in the manufacture or production of any article
19 intended for sale, there shall be credited or refunded to
20 the manufacturer or producer of such bulb (without
21 interest), subject to such regulations as may be pre-
22 scribed by the Secretary, an amount equal to so much
23 of the tax so paid as has been paid by such manufacturer
24 or producer to such person as reimbursement for the
25 elimination on such effective date of the tax on such bulb,

1 if claim for such credit or refund is filed with the Secre-
 2 tary prior to the expiration of three months after such
 3 effective date. No credit or refund shall be allowable
 4 under this paragraph for any bulb held by any person
 5 for sale which was purchased by such person as a com-
 6 ponent part of any other article.

7 ~~(2)~~ No person shall be entitled to credit or refund
 8 under paragraph ~~(1)~~ unless he has in his possession such
 9 evidence of the inventories with respect to which he has
 10 made the reimbursements described in paragraph ~~(1)~~ as
 11 the regulations under paragraph ~~(1)~~ shall prescribe.

12 ~~(3)~~ All provisions of law, including penalties, ap-
 13 plicable with respect to the tax imposed under section
 14 3406 ~~(a)~~ ~~(4)~~ of the Internal Revenue Code shall,
 15 insofar as applicable and not inconsistent with this sub-
 16 section, be applicable in respect of the credits and refunds
 17 provided for in this subsection to the same extent as if
 18 such credits or refunds constituted credits or refunds of
 19 such taxes.

20 *SEC. 476. PHOTOGRAPHIC APPARATUS.*

21 *Section 3406 (a) (4) is hereby amended to read as*
 22 *follows:*

23 *“(4) PHOTOGRAPHIC APPARATUS.—Cameras (ex-*
 24 *cept cameras weighing more than four pounds exclusive*

of lens and accessories) and lenses; photographic apparatus and equipment; any apparatus or equipment designed especially for use in the taking of photographs or motion pictures or in developing, printing, or enlarging photographs or motion pictures; unexposed photographic films (including motion picture films but not including X-ray film); unexposed photographic plates; and unexposed sensitized paper; 15 per centum. The amount of tax payable on a sale of unexposed thirty-five millimeter color positive print motion picture film shall be computed, in lieu of on the price for which so sold, on the price for which an equivalent quantity of unexposed thirty-five millimeter black and white positive print motion picture film is sold, in the ordinary course of trade, by manufacturers or producers thereof, as determined by the Secretary."

SEC. 486 477. IMPOSITION OF TAX ON MECHANICAL PENCILS AND FOUNTAIN AND BALL POINT PENS PENCILS, FOUNTAIN AND BALL POINT PENS, AND MECHANICAL LIGHTERS FOR CIGARETTES, CIGARS, AND PIPES.

Chapter 29 (relating to manufacturers' excise and import taxes) is hereby amended by adding after section 3407 the following new section:

1 “SEC. 3408. TAX ON MECHANICAL PENCILS AND FOUNTAIN
 2 AND BALL POINT PENS PENCILS, FOUNTAIN
 3 AND BALL POINT PENS, AND MECHANICAL LIGHT-
 4 ERS FOR CIGARETTES, CIGARS, AND PIPES.

5 “(a) IMPOSITION OF TAX.—There shall be imposed
 6 on the following articles, sold by the manufacturer, producer,
 7 or importer, a tax equal to ~~20~~ 10 per centum of the price
 8 for which so sold: Mechanical pencils, fountain pens, and
 9 ball point pens pens; *mechanical lighters for cigarettes, cigars,*
 10 *and pipes.*

11 “(b) EXEMPTION IF ARTICLE TAXABLE AS JEW-
 12 ELRY.—No tax shall be imposed under this section on any
 13 article taxable under section 2400 (relating to jewelry tax).
 14 *If any article, on the sale of which tax has been paid under*
 15 *this section, is further manufactured or processed resulting in*
 16 *an article taxable under section 2400, the person who sells*
 17 *such article at retail shall, in the computation of the retailers’*
 18 *excise tax due on such sale, be entitled to a credit or refund*
 19 *in an amount equal to the tax paid under this section.”*

20 SEC. ~~487~~ 478. REPEAL OF TAX ON ELECTRICAL ENERGY.

21 (a) REPEAL OF TAX.—Section 3411 (relating to tax
 22 on electrical energy for domestic or commercial consump-
 23 tion), and sections 3441 ~~(d)~~, ~~3444 (b)~~, and ~~(d)~~ and 3447
 24 (c) (related provisions), are hereby repealed.

(b) EFFECTIVE DATE.—

(1) Except as provided in paragraph (2), the provisions of subsection (a) shall apply to electrical energy sold on or after the first day of the first month which begins more than ten days after the date of the enactment of this Act.

(2) In the case of electrical energy sold which is billed to the customer for a period beginning before the effective date specified in paragraph (1) and ending on or after such date, the provisions of subsection (a) shall apply to that portion of the amount billed for the electrical energy sold during such period which the number of days in such period on and after such effective date bears to the total number of days in such period. This section shall not apply to electrical energy sold before such effective date for which a bill was rendered prior to such date.

SEC. 488 479. TAX ON GASOLINE.

(a) INCREASE IN RATE.—Section 3412 (a) is hereby amended by striking out “1½ cents” and inserting in lieu thereof “2 cents” *and by adding at the end thereof the following new sentence: “On and after January 1, 1954, the tax imposed by this section shall be 1½ cents a gallon in lieu of 2 cents a gallon.”*

1 (b) FLOOR STOCKS TAX AND REFUND.—Section 3412
 2 is hereby amended by adding at the end thereof the following
 3 new ~~subsection~~ *subsections*:

4 “(f) 1951 FLOOR STOCKS TAX.—On gasoline subject to
 5 tax under this section which, on the effective date of section
 6 ~~488~~ 479 (a) of the Revenue Act of 1951, is held and in-
 7 tended for sale, there shall be levied, assessed, collected, and
 8 paid a floor stocks tax at the rate of $\frac{1}{2}$ cent per gallon. The
 9 tax shall not apply to gasoline in retail stocks held at the
 10 place where intended to be sold at retail, nor to gasoline held
 11 for sale by ~~the manufacturer, producer, or importer thereof.~~”
 12 *a producer or importer of gasoline.*

13 “(g) FLOOR STOCK REFUND.—

14 “(1) IN GENERAL.—With respect to any gasoline
 15 taxable under this section, upon which tax (including
 16 floor stocks tax) at the applicable rate has been paid,
 17 and which, on January 1, 1954, is held and intended
 18 for sale by any person, there shall be credited or re-
 19 funded (without interest) to the producer or importer
 20 who paid the tax, subject to such regulations as may be
 21 prescribed by the Secretary, an amount equal to so much
 22 of the difference between the tax so paid and the amount
 23 of tax made applicable to such gasoline on and after Jan-
 24 uary 1, 1954, as has been paid by such producer or im-

porter to such person as reimbursement for the tax reduction on such gasoline, if claim for such credit or refund is filed with the Secretary prior to April 1, 1954. No credit or refund shall be allowable under this subsection with respect to gasoline in retail stocks held at the place where intended to be sold at retail, nor with respect to gasoline held for sale by a producer or importer of gasoline.

“(2) *LIMITATION ON ELIGIBILITY FOR CREDIT OR REFUND.*—No producer or importer shall be entitled to a credit or refund under paragraph (1) unless he has in his possession satisfactory evidence of the inventories with respect to which he has made the reimbursements described in such paragraph, and establishes to the satisfaction of the Secretary with respect to the quantity of gasoline as to which credit or refund is claimed under such paragraph, that on or after January 1, 1954, such quantity of gasoline was sold to the ultimate consumer at a price which reflected the amount of the tax reduction.

“(3) *PENALTY AND ADMINISTRATIVE PROCEDURES.*—All provisions of law, including penalties, applicable in respect of the tax imposed under this section shall, insofar as applicable and not inconsistent with this subsection, be applicable in respect of the credits and

5 Except as otherwise expressly provided in this part,
6 the amendments made by this part shall take effect on the
7 first day of the first month which begins more than 10 days
8 after the date of the enactment of this Act.

10 SEC. ~~491~~ 481. REDUCTION OF TAX ON TELEGRAPH DIS-
11 PATCHES.

(b) ~~CLERICAL AMENDMENT.~~—The table contained in section 1650 (relating to the war tax rates of certain miscellaneous taxes) is hereby amended by striking out the following:

"3465 (a) (1) (B) (insofar as it relates to domestic telegraph, cable, and radio dispatches).	Domestic Telegraph, Cable, or Radio Dispatches.	15 per centum-----	25 per centum."
---	---	--------------------	-----------------

1 ~~(e)~~ (b) EFFECTIVE DATE.—Subject to the provisions
2 of subsection ~~(d)~~ (c), the amendments made by this section
3 shall apply with respect to amounts paid on or after the
4 rate reduction date (as defined in subsection ~~(e)~~ (d)) for
5 services rendered on or after such date.

6 ~~(d)~~ (c) AMOUNTS PAID PURSUANT TO BILLS REN-
7 DERED.—The amendments made by this section shall not
8 apply with respect to amounts paid pursuant to bills rendered
9 prior to the rate reduction date. In the case of amounts paid
10 pursuant to bills rendered on or after the rate reduction date
11 for services for which no previous bill was rendered, the
12 amendments made by this section shall apply except with
13 respect to such services as were rendered more than 2
14 months before such date. In the case of services rendered
15 more than 2 months before such date the provisions of
16 sections 1650 and 3465 of the Internal Revenue Code in
17 effect at the time such services were rendered shall be
18 applicable to the amounts paid for such services.

19 ~~(e)~~ (d) RATE REDUCTION DATE.—For the purposes of
20 this section the term “rate reduction date” means the first day
21 of the first month which begins more than 10 days after
22 the date of the enactment of this Act.

1 **SEC. 482. EXEMPTION OF CERTAIN OVERSEAS TELEPHONE CALLS**
 2 **FROM THE TAX ON TELEPHONE FACILITIES.**

3 *(a) TELEPHONE CALLS FROM MEMBERS OF ARMED*
 4 *FORCES IN COMBAT ZONES.*—Section 3466 is amended by
 5 *redesignating subsection (c) thereof as subsection “(d)”*
 6 *and by inserting after subsection (b) the following new*
 7 *subsection:*

8 *“(c) No tax shall be imposed under section 3465 (a)*
 9 *(1) (A) upon any payment received for any telephone or*
 10 *radio telephone message which originates within a combat*
 11 *zone, as defined in section 22 (b) (13), from a member of*
 12 *the Armed Forces of the United States performing service in*
 13 *such combat zone, as determined under such section, provided*
 14 *a certificate, setting forth such facts as the Secretary may by*
 15 *regulations prescribe, is furnished to the person receiving*
 16 *such payment.”*

17 *(b) EFFECTIVE DATE.*—The amendment made by sub-
 18 *section (a) shall apply to amounts paid on or after the first*
 19 *day of the first month which begins more than 10 days after*
 20 *the date of enactment of this Act for telephone or radio*
 21 *telephone messages made on or after such date.*

22 **SEC. 492 483. EXEMPTION OF FISHING TRIPS FROM TAX ON**
 23 **TRANSPORTATION.**

24 *(a) EXEMPTION.*—Section 3469 (b) (relating to
 25 exemption of certain trips from the tax on transportation of

1 persons) is hereby amended by striking out “or to amounts”
 2 and inserting in lieu thereof “to amounts”, and by inserting
 3 after the words “one month or less” the following “; or to
 4 amounts paid for transportation by boat for the purpose of
 5 fishing from such boat”.

6 (b) EFFECTIVE DATE.—The amendment made by sub-
 7 section (a) shall apply to amounts paid on or after the first
 8 day of the first month which begins more than 10 days after
 9 the date of the enactment of this Act for transportation on
 10 or after such first day.

11 **SEC. 493. TRANSPORTATION OF OIL BY WATER.**

12 ~~(a) IMPOSITION OF TAX.~~—Chapter 30 (relating to
 13 transportation and communications taxes) is hereby amended
 14 by adding at the end thereof the following new subchapter:

15 **“SUBCHAPTER F—TRANSPORTATION OF OIL BY**
 16 **WATER**

17 **“SEC. 3476. TRANSPORTATION OF OIL BY WATER.**

18 ~~“(a) TAX.~~—There shall be imposed upon all transporta-
 19 tion ~~(other than transportation taxable under section 3475)~~
 20 of crude petroleum and liquid products thereof by water,
 21 from one point in the United States to another, a tax equal to
 22 ~~3~~ per centum of the fair charge for such transportation.

23 ~~“(b) FAIR CHARGE DEFINED.~~—For the purposes of
 24 this section, the fair charge for transportation shall be com-
 25 puted on—

1 “(1) the basis of the charge for such transportation
2 made by persons performing like transportation for hire,
3 as determined by the Secretary; or

4 “(2) if no such charge exists, then on the basis
5 of a reasonable charge for such transportation, as deter-
6 mined by the Secretary.

7 “(c) EXEMPTION FROM TAX.—The tax imposed by
8 this section shall not apply to—

9 “(1) transportation within the premises of a pro-
10 ducing property, refinery, bulk plant, terminal, or gaso-
11 line plant;

12 “(2) transportation in a vessel of a product to be
13 used (without unloading) as fuel supplies, ship's stores,
14 sea stores, or legitimate equipment, on such vessel;

15 “(3) transportation by and for the exclusive use of
16 the Government of the United States, or by and for the
17 exclusive use of any State, Territory, or political subdivi-
18 sion thereof, or the District of Columbia; or

19 “(4) products transported by an individual for his
20 personal use and not for business purposes.

21 “(d) RETURN AND PAYMENT OF TAX.—The tax im-
22 posed by this section shall be paid by the person furnishing
23 the transportation subject to the tax. Every person liable for
24 the tax imposed under this section shall make returns and pay
25 such taxes to the collector for the district in which is located

1 his principal place of business or, if he has no principal place
 2 of business in the United States, then to the collector at
 3 Baltimore, Maryland. Such returns shall contain such infor-
 4 mation and be made at such times and in such manner as the
 5 Secretary by regulations may prescribe."

6 (b) TECHNICAL AMENDMENT.—Section 3475 (a)
 7 (relating to tax on transportation of property) is hereby
 8 amended by adding at the end thereof the following new
 9 sentence: "In the case of transportation of crude petroleum
 10 and liquid products thereof by water from one point in the
 11 United States to another, if (other than in the case of an
 12 arm's length transaction) the amount paid for such trans-
 13 portation is less than the fair charge therefor (as defined in
 14 section 3476 (b)) the tax imposed by section 3476, and not
 15 the tax imposed by this section, shall apply with respect to
 16 such transportation."

17 (c) EFFECTIVE DATE.—The amendments made by this
 18 section shall be applicable only with respect to transportation
 19 which begins on or after the first day of the first month
 20 which begins more than ten days after the date of the
 21 enactment of this Act.

22 SEC. 484. TAX ON TRANSPORTATION OF PERSONS.

23 (a) EXEMPTION OF CERTAIN FOREIGN TRAVEL.—
 24 Section 3469 (a) of the Internal Revenue Code (relating
 25 to tax on transportation of persons) is hereby amended by

1 striking out the third sentence and inserting in lieu of such
 2 sentence the following: "In the case of transportation by
 3 water on a vessel which makes one or more intermediate stops
 4 at ports within the United States, Canada, or Mexico on a
 5 voyage which begins or ends in the United States and ends
 6 or begins outside the northern portion of the Western Hemi-
 7 sphere, no part of such transportation shall be considered for
 8 the purposes of the preceding sentence to be from any port
 9 within the United States, Canada, or Mexico to any other
 10 such port if the vessel in stopping at any such intermediate
 11 port is not authorized both to discharge and to take on passen-
 12 gers. A port or station within Newfoundland shall not, for
 13 the purposes of the preceding two sentences, be considered as
 14 a port or station within Canada."

15 (b) *EFFECTIVE DATE.*—The amendment made by sub-
 16 section (a) shall apply to amounts paid on or after the first
 17 day of the first month which begins more than ten days after
 18 the date of the enactment of this Act for transportation on or
 19 after such first day.

20 **SEC. 485. TRANSPORTATION OF MATERIAL EXCAVATED IN THE**
 21 **COURSE OF CONSTRUCTION WORK.**

22 (a) *AMENDMENT OF SECTION 3475.*—Section 3475
 23 (relating to tax on transportation of property) is hereby
 24 amended by adding at the end thereof the following: "The
 25 tax imposed by this section shall not apply to the transpor-

1 *tation of earth, rock, or other material excavated within the*
 2 *boundaries of, and in the course of, a construction project*
 3 *and transported to any place within, or adjacent to, the*
 4 *boundaries of such project."*

5 (b) *EFFECTIVE DATE.*—*The amendment made by sub-*
 6 *section (a) shall apply to amounts paid on or after the first*
 7 *day of the first month which begins more than ten days after*
 8 *the date of enactment of this Act for transportation on or*
 9 *after such first day.*

10 **SEC. 494 486. ARTICLES FROM FOREIGN TRADE ZONES.**

11 (a) *IMPORTED ARTICLES.*—*Upon all articles specified*
 12 *in section 2000 (c) (2), 2800 (a), 3030 (a), or 3150*
 13 *(a) of the Internal Revenue Code on which the internal*
 14 *revenue taxes imposed by law have been determined,*
 15 *pursuant to section 3 of the Act of June 18, 1934, as*
 16 *amended (U. S. C., title 19, sec. 81c), prior to the*
 17 *effective date of the rates of tax imposed on such*
 18 *articles by this Act, and which on or after such effective*
 19 *date are brought from foreign trade zones into customs*
 20 *territory of the United States, there shall be levied, assessed,*
 21 *collected, and paid on such articles, in addition to the tax*
 22 *so determined, an additional tax at rates equal to the in-*
 23 *creases in rates of tax made applicable to such articles by*
 24 *this Act. The tax imposed by this subsection shall be col-*
 25 *lected, paid, and accounted for at the same time and in the*

1 same manner as tax on such article is collected, paid, and
2 accounted for when brought from the foreign trade zone
3 into the customs territory.

4 (b) PREVIOUSLY TAXPAID ARTICLES.—Upon all tax-
5 paid articles specified in section 2000 (c) (2), 2800 (a),
6 3030 (a), or 3150 (a) of the Internal Revenue Code
7 which have been taken into foreign trade zones from
8 the customs territory of the United States and placed
9 under the supervision of the collector of customs, pur-
10 suant to the second proviso of section 3 of the Act
11 of June 18, 1934, as amended (U. S. C., title 19, sec.
12 81c), prior to the effective date of the rates of tax imposed
13 on such articles by this Act, and which on or after such
14 effective date are (without loss of identity) returned from
15 foreign trade zones to customs territory of the United States,
16 there shall be levied, assessed, collected, and paid on such
17 articles an additional tax at rates equal to the increases in
18 rates of tax made applicable to such articles by this Act.
19 The tax imposed by this subsection on any article shall be
20 collected, paid, and accounted for at the same time and in
21 the same manner as if such article had been taken into the
22 foreign trade zone free of tax.

23 SEC. 487. REFUNDS ON ARTICLES FROM FOREIGN TRADE ZONES.

24 (a) IMPORTED ARTICLES.—With respect to any article
25 specified in section 2000 (c) (2), 2800 (a), 3030 (a), or

1 3150 (a) of the Internal Revenue Code on which internal
2 revenue tax at the applicable rate prescribed in such section
3 has been determined pursuant to section 3 of the Act of
4 June 18, 1934, as amended (U. S. C., title 19, sec. 81c),
5 prior to January 1, 1954, and which on or after such date
6 is brought from a foreign trade zone into customs territory
7 of the United States and the tax so determined thereon paid,
8 there shall be credited or refunded (without interest) to the
9 taxpayer, subject to such regulations as may be prescribed
10 by the Secretary, an amount equal to the difference between
11 the tax so paid and the amount of tax made applicable to
12 such articles on and after January 1, 1954, if claim for
13 such credit or refund is filed with the Secretary within thirty
14 days after payment of the tax.

15 (b) PREVIOUSLY TAXPAID ARTICLES.—With respect
16 to any article specified in section 2000 (c) (2), 2800 (a),
17 3030 (a), or 3150 (a) of the Internal Revenue Code, upon
18 which internal revenue tax (including floor stocks tax) at the
19 applicable rate prescribed in such section has been paid, and
20 which was taken into a foreign trade zone from the customs
21 territory of the United States and placed under the super-
22 vision of the collector of customs, pursuant to the second
23 proviso of section 3 of the Act of June 18, 1934, as amended
24 (U. S. C., title 19, sec. 81c), prior to January 1, 1954, and
25 which on or after such date is (without loss of identity)

1 returned from a foreign trade zone to customs territory of
 2 the United States, there shall be credited or refunded (with-
 3 out interest) to the person so returning such article, subject
 4 to such regulations as may be prescribed by the Secretary,
 5 an amount equal to the difference between the tax so paid and
 6 the amount of tax made applicable to such articles on and
 7 after January 1, 1954, if claim for such credit or refund
 8 is filed with the Secretary within thirty days after the return
 9 of the article to customs territory.

10 TITLE V—EXCESS PROFITS TAX

11 SEC. 501. MAXIMUM TAX FOR NEW CORPORATIONS.

12 Section 430 (relating to imposition of tax) is hereby
 13 amended as follows:

14 (1) By adding at the end of subsection (a) thereof,
 15 as amended by section 121 of this Act, the following:

16 “(3) In the case of a corporation for which an
 17 amount is determined for the taxable year under sub-
 18 section (e), the amount determined under such sub-
 19 section.”

20 (2) By redesignating subsection (e) as subsection
 21 (f); and

22 (3) By inserting after subsection (d) the following
 23 new subsection:

24 “(e) NEW CORPORATIONS.—

25 “(1) ALTERNATIVE AMOUNT.—In the case of a

1 *taxpayer which commenced business after July 1,*
2 *1945, the amount referred to in subsection (a) (3)*
3 *shall be—*

4 *“(A) If the taxable year is the first or second*
5 *taxable year of the taxpayer, an amount equal to 5*
6 *per centum of the excess profits net income for the*
7 *taxable year, except that if the excess profits net*
8 *income exceeds \$400,000, the amount shall be the*
9 *sum of \$20,000 plus the amount determined under*
10 *subparagraph (E) of this paragraph.*

11 *“(B) If the taxable year is the third taxable*
12 *year of the taxpayer, an amount equal to 8 per cen-*
13 *tum of the excess profits net income for the taxable*
14 *year, except that if the excess profits net income ex-*
15 *ceeds \$400,000, the amount shall be the sum of*
16 *\$32,000 plus the amount determined under subpara-*
17 *graph (E) of this paragraph.*

18 *“(C) If the taxable year is the fourth taxable*
19 *year of the taxpayer, an amount equal to 11 per*
20 *centum of the excess profits net income for the taxable*
21 *year, except that if the excess profits net income*
22 *exceeds \$400,000, the amount shall be the sum of*
23 *\$44,000 plus the amount determined under subpara-*
24 *graph (E) of this paragraph.*

1 “(D) If the taxable year is the fifth taxable
2 year of the taxpayer, an amount equal to 14 per
3 centum of the excess profits net income for the taxable
4 year, except that if the excess profits net income ex-
5 ceeds \$400,000, the amount shall be the sum of
6 \$56,000 plus the amount determined under subpara-
7 graph (E) of this paragraph.

8 “(E) The amount determined under this sub-
9 paragraph shall be—

10 “(i) if the taxable year ends before April
11 1, 1951, an amount equal to 15 per centum of
12 the excess of the excess profits net income for the
13 taxable year over \$400,000.

14 “(ii) if the taxable year begins on January
15 1, 1951, and ends on December 31, 1951, an
16 amount equal to $16\frac{1}{2}$ per centum of the excess
17 of the excess profits net income for the taxable
18 year over \$400,000.

19 “(iii) if the taxable year (other than a
20 taxable year described in clause (ii)) ends
21 after March 31, 1951, an amount equal to 17
22 per centum of the excess profits net income for
23 the taxable year over \$400,000.

24 “(2) FIRST FOUR TAXABLE YEARS.—For the pur-
25 pose of this subsection—

1 “(A) The taxable year in which the taxpayer
2 commenced business and the first, second, third, and
3 fourth succeeding taxable years shall be considered
4 its first, second, third, fourth, and fifth taxable years,
5 respectively.

6 “(B) The taxpayer shall be considered to have
7 been in existence and to have had taxable years for
8 any period during which it or any corporation
9 described in any clause of this subparagraph was in
10 existence, and the taxpayer shall be considered to
11 have commenced business on the earliest date on
12 which it or any such corporation commenced
13 business:

14 “(i) Any corporation which is a party with
15 the taxpayer to a transaction described in sec-
16 tion 445 (g) (2) (whether or not such transac-
17 tion is described in section 461 (a)), determined
18 as if the date ‘January 1, 1946’ were substi-
19 tuted for the date ‘December 1, 1950’ in section
20 445 (g).

21 “(ii) Any corporation if a group of not
22 more than 4 persons who control the taxpayer
23 at any time during the taxable year also control
24 such corporation during the taxable year, or
25 controlled such corporation at any time during

1 the period beginning 12 months preceding their
2 acquisition of control of the taxpayer; but only
3 if at any time during the period beginning 12
4 months preceding the acquisition of control of
5 the taxpayer and ending with the close of the
6 taxable year (and while such persons controlled
7 such corporation) such corporation was en-
8 gaged in a trade or business substantially simi-
9 lar to the trade or business of the taxpayer dur-
10 ing the taxable year. For the purpose of this
11 clause, the term 'control' means the owner-
12 ship of more than 50 per centum of the total
13 combined voting power of all classes of stock
14 entitled to vote, or more than 50 per centum of
15 the total value of shares of all classes of stock.
16 A person shall not be deemed a member of the
17 group referred to in this clause unless he owns
18 stock in both the corporation and the taxpayer.
19 For the purpose of this clause, the ownership of
20 stock shall be determined in accordance with
21 the provisions of section 503, except that con-
22 structive ownership under section 503 (a) (2)
23 shall be determined only with respect to the indi-
24 vidual's spouse and minor children.

25 “(iii) In case the taxpayer is a purchasing

corporation under the provisions of part IV, the selling corporation (as defined in such part) whose properties have been acquired in a part IV transaction.

“(iv) Any corporation which, under regulations prescribed by the Secretary, is determined by one or more additional applications of clauses (i) to (iii) to stand indirectly in the same relation to the taxpayer as though such corporation were described in any such clause.

“(3) *LIMITATION.*—The provisions of paragraph (1) of this subsection shall not apply to a taxpayer which derives more than 50 per centum of its gross income for the taxable year from contracts and subcontracts to which the provisions of title I of the Renegotiation Act of 1951 (or the provisions of any prior renegotiation act) are applicable.”

SEC. 502. PAYMENTS FROM FOREIGN SOURCES FOR TECHNICAL ASSISTANCE, ETC.

(a) *AMENDMENT OF SECTION 433 (a) (1).*—Section 433 (a) (1) (relating to excess profits net income for taxable years ending after June 30, 1950) is hereby amended by adding at the end thereof the following new subparagraph:

“(R) *Payments From Foreign Sources for*

1 *Technical Assistance, Etc.*—In the case of a domestic
 2 corporation which renders to a related foreign cor-
 3 poration technical assistance, engineering services,
 4 scientific assistance, or similar services (such serv-
 5 ices or assistance being related to the production
 6 or improvement of products of the type manufactured
 7 by such domestic corporation), there shall be ex-
 8 cluded the remuneration for such services or assist-
 9 ance if such remuneration constitutes income derived
 10 from sources without the United States. Any de-
 11 ductions in connection with or properly allocable to
 12 the rendering of such services or assistance shall
 13 not be allowed. For the purpose of this subpara-
 14 graph, a foreign corporation shall be considered to
 15 be a ‘related foreign corporation’ if the domestic
 16 corporation owns 10 per centum or more of the
 17 outstanding stock of such foreign corporation.”

18 (b) AMENDMENT OF SECTION 433 (b).—Section 433
 19 (b) (relating to taxable years in base period) is hereby
 20 amended by adding at the end thereof the following new
 21 paragraph:

22 “(16) PAYMENTS FROM FOREIGN SOURCES FOR
 23 TECHNICAL ASSISTANCE, ETC.—In the case of a domes-
 24 tic corporation which renders to a related foreign cor-
 25 poration technical assistance, engineering services, scien-

tific assistance, or similar services (such services or assistance being related to the production or improvement of products of the type manufactured by such domestic corporation), there shall be excluded the remuneration for such services or assistance if such remuneration constitutes income derived from sources without the United States. Any deductions in connection with or properly allocable to the rendering of such services or assistance shall not be allowed. For the purpose of this paragraph, a foreign corporation shall be considered to be a 'related foreign corporation' if the domestic corporation owns 10 per centum or more of the outstanding stock of such foreign corporation."

SEC. 503. AVERAGE BASE PERIOD NET INCOME IN CASE OF CERTAIN FISCAL YEAR TAXPAYERS.

Section 435 (d) (relating to the general average method for the computation of average base period net income) is hereby amended by adding at the end thereof the following:

"For the purpose of the computations under this subsection in the case of a taxpayer whose first taxable year under this subchapter is a taxable year which either began before January 1, 1950, or was preceded by a taxable year beginning before January 1, 1950, and ending after March 31, 1950, there shall be substituted for the base period of the taxpayer the period of 48 consecutive months ending March 31, 1950, if

1 *such substitution produces a lesser tax under this subchapter*
 2 *for the taxable year for which the tax is being computed.”*

3 **SEC. 504. AVERAGE BASE PERIOD NET INCOME—ALTERNATIVE**
 4 **BASED ON GROWTH IN CASE OF NEW CORPORA-**
 5 **TIONS.**

6 *(a) GENERAL RULE.—Section 435 (e) (1) (relating*
 7 *to the alternative based on growth) is hereby amended by*
 8 *striking out the phrase “the beginning of its base period” and*
 9 *inserting in lieu thereof the following: “the end of its base*
 10 *period”.*

11 *(b) AMENDMENT OF PART II.—Section 462 (c) (re-*
 12 *lating to the use by an acquiring corporation in a Part II*
 13 *transaction of an alternative average base period net income*
 14 *based on growth) is hereby amended as follows:*

15 *(1) By amending paragraph (1) thereof to read as*
 16 *follows:*

17 *“(1) In the case of a transaction described in*
 18 *section 461 (a), other than a transaction described in*
 19 *section 461 (a) (1) (E),—*

20 *“(A) The acquiring corporation shall not be*
 21 *denied the right to determine whether it is eligible*
 22 *for the benefits of section 435 (e) without reference*
 23 *to the recomputation of its excess profits net income*
 24 *provided for in section 462 (b) where the trans-*
 25 *action occurred on or after July 1, 1950, but it shall*

1 *be denied such right where the transaction occurred*
2 *prior to July 1, 1950.*

3 *“(B) Where, immediately prior to the date of*
4 *the transaction, the acquiring corporation and all*
5 *the component corporations (other than a corpora-*
6 *tion created incident to such transaction) met the re-*
7 *quirements of section 435 (e) (1) (A) (i), and,*
8 *in case the transaction occurred on or after July*
9 *1, 1950, had commenced business prior to the be-*
10 *ginning of its base period (determined without refer-*
11 *ence to section 461 (d)), the acquiring corporation*
12 *shall be entitled to compute its average base period*
13 *net income under section 435 (e) with reference to*
14 *the recomputation of its excess profits net income pro-*
15 *vided for in section 462 (b) if the tests of section*
16 *435 (e) are satisfied. For that purpose, the ac-*
17 *quiring corporation shall combine with its total pay-*
18 *roll and its total gross receipts for that portion of*
19 *its base period which preceded such transaction the*
20 *total payroll and total gross receipts of such com-*
21 *ponent corporations for that portion of such period*
22 *and it shall combine with its net sales for that por-*
23 *tion of the period prior to January 1, 1951, which*
24 *preceded such transaction the net sales of such com-*
25 *ponent corporations for that portion of such period,*

1 *The allocation of payroll and gross receipts amounts*
2 *of a component corporation to any such portion of*
3 *such period shall be made in accordance with the*
4 *rules provided in section 435 (e) (4) and (5).*
5 *For purposes of qualifying under section 435 (e)*
6 *(1) (A) (i) (relating to total assets of the tax-*
7 *payer), such acquiring corporation shall combine its*
8 *total assets on the date specified in section 435 (e)*
9 *(1) (A) (i) with the total assets of each component*
10 *corporation on such date. The Secretary shall*
11 *prescribe by regulation such rules as may be neces-*
12 *sary to insure that such combined total gross re-*
13 *ceipts do not reflect a duplication for purposes of*
14 *this section.*

15 *“(C) Where, immediately prior to the date*
16 *of the transaction, either the acquiring corporation*
17 *or one or more component corporations (other*
18 *than a corporation created incident to such trans-*
19 *action) did not meet the requirements of section 435*
20 *(e) (1) (A) (i), or, in case the transaction oc-*
21 *curred on or after July 1, 1950, had not commenced*
22 *business prior to the beginning of its base period*
23 *(determined without reference to section 461 (d)),*
24 *the acquiring corporation shall not be entitled to*
25 *compute its average base period net income under*

section 435 (e) with reference to the recomputation of its excess profits net income provided for in section 462 (b). In any such case, where the transaction occurred on or after July 1, 1950, the monthly excess profits net income of the corporation entitled to the benefits of section 435 (e) for any month of the acquiring corporation's base period shall be, for purposes of the recomputation provided for in section 462 (b), one-twelfth of the average base period net income to which such corporation was entitled under section 435 (e)."

(2) By striking from the second sentence of paragraph (2) thereof the words: "had commenced business prior to the beginning of its base period (determined without reference to section 461 (d)) and".

(3) By striking from paragraph (3) thereof the words "which had commenced business prior to the beginning of its base period" and by inserting in lieu thereof the following: "which had commenced business prior to the end of its base period".

SEC. 505. AVERAGE BASE PERIOD NET INCOME—ALTERNATIVE
BASED ON GROWTH.

Section 435 (e) (2) (G) (relating to the alternative based on growth) is hereby amended by striking out the word "only".

1 SEC. 506. ADJUSTMENTS FOR CHANGES IN INADMISSIBLE ASSETS
2 IN CASE OF BANKS.

3 (a) AMENDMENT OF SECTION 435 (g).—Section 435
4 (g) (relating to net capital addition or reduction) is hereby
5 amended by redesignating paragraph (8) as paragraph
6 (11) and by adding after paragraph (7) the following
7 new paragraph:

8 “(8) ADJUSTMENTS FOR CHANGES IN INADMIS-
9 SIBLE ASSETS IN CASE OF BANKS.—In the case of a
10 bank (as defined in section 104)—

11 “(A) The amount of the adjustment under
12 paragraph (1) for an increase in inadmissible assets
13 shall not exceed an amount which bears the same
14 ratio to the net capital addition computed without
15 regard to such adjustment as the increase in inad-
16 missible assets for the taxable year, determined under
17 paragraph (5), bears to the increase in total assets
18 for the taxable year.

19 “(B) The amount of the adjustment under
20 paragraph (2) for a decrease in inadmissible assets
21 shall not exceed an amount which bears the same
22 ratio to the net capital reduction computed without
23 regard to such adjustment as the decrease in inadmis-
24 sible assets for the taxable year, determined under

paragraph (5), bears to the decrease in total assets for the taxable year.

For the purpose of this paragraph, the increase or decrease in total assets for the taxable year shall be computed in the same manner as the increase or decrease in inadmissible assets for the taxable year is computed under paragraph (5), except that such computations shall be made with respect to all assets, whether admissible or inadmissible assets as defined in section 440."

(b) AMENDMENT OF SECTION 438.—Section 438 (relating to new capital credit changes) is hereby amended by adding after subsection (f) the following new subsection:

"(g) ADJUSTMENTS FOR INADMISSIBLE ASSETS IN CASE OF BANKS.—In the case of a bank (as defined in section 104) the amount of the adjustment for an increase in inadmissible assets under subsection (b) shall not exceed an amount which bears the same ratio to the net new capital addition computed without regard to such adjustment as the increase in inadmissible assets for the taxable year, determined under section 435 (g) (5), bears to the amount of the increase in total assets (which increase in total assets shall be determined in the manner provided in section 435 (g) (8))."

1 (c) *AMENDMENT OF SECTION 435 (f).*—Section 435
 2 (f) *(relating to capital additions in base period)* is hereby
 3 amended as follows:

4 (1) *By inserting immediately after the word “re-*
 5 *duced” in paragraph (1) thereof, the following: “(but*
 6 *not below zero)”.*

7 (2) *By adding at the end of paragraph (1) thereof*
 8 *the following new sentence:*

9 *“For special rule in the case of banks, see para-*
 10 *graph (6).”*

11 (3) *By renumbering paragraph (6) as paragraph*
 12 *(7), and by adding immediately after paragraph (5)*
 13 *the following new paragraph:*

14 *“(6) YEARLY BASE PERIOD CAPITAL OF BANKS.—*
 15 *In the case of a bank (as defined in section 104), the*
 16 *yearly base period capital for any taxable year shall*
 17 *be determined as follows:*

18 *“(A) A tentative yearly base period capital*
 19 *shall be computed under paragraph (1) without*
 20 *regard to paragraph (1) (A).*

21 *“(B) The tentative yearly base period capital*
 22 *so determined shall be reduced by the amount de-*
 23 *termined under section 440 (b) (relating to inad-*
 24 *missible assets). For the purpose of this subpara-*
 25 *graph, the computation under section 440 (b) shall*

1 include only the daily amounts (described in such
2 section) for the first day of such taxable year.”

3 **SEC. 507. DECREASE IN INADMISSIBLE ASSETS.**

4 Section 435 (g) (relating to net capital addition or
5 reduction) is hereby amended as follows:

6 (a) By adding at the end of paragraph (1) thereof the
7 following:

8 “*For further adjustment with respect to the amount*
9 *determined under the preceding provisions of this para-*
10 *graph, see paragraph (9).”*

11 (b) By adding immediately after paragraph (8), as
12 added by section 506 of this Act, the following new para-
13 graphs:

14 “(9) **DECREASE IN INADMISSIBLE ASSETS.**—The
15 *excess of the amount computed under paragraph (2)*
16 *(A) or (B), whichever is applicable to the taxpayer*
17 *(whether or not any amount is determined under the*
18 *first sentence of paragraph (2)), over the amount com-*
19 *puted under the first sentence of paragraph (2) shall*
20 *be considered the net capital addition for the taxable*
21 *year or shall be added to the net capital addition other-*
22 *wise determined under paragraph (1), as the case may*
23 *be. The amount of the excess so determined shall be sub-*
24 *ject to the exceptions and limitations provided in para-*
25 *graph (10).*

1 “(10) *EXCEPTIONS AND LIMITATIONS FOR THE*
2 *PURPOSE OF PARAGRAPH (9).—For the purpose of*
3 *paragraph (9)—*

4 “(A) *The adjustment to the decrease in inad-*
5 *missible assets required under subparagraph (B)*
6 *of paragraph (2) shall not be greater than 25*
7 *per centum of the excess of the net capital reduction*
8 *computed under the first sentence of paragraph (2)*
9 *(and computed without regard to the percentage*
10 *limitations in paragraph (4) (C) and (E)) over*
11 *the net capital reduction computed under such sen-*
12 *tence without regard to paragraph (4) (C) and*
13 *(E).*

14 “(B) *The amount determined under paragraph*
15 *(9) shall not be greater than the excess of the in-*
16 *crease in operating assets for the taxable year over*
17 *the net capital addition (determined without regard*
18 *to paragraph (9) and determined without regard to*
19 *the limitation to 75 per centum provided in paragraph*
20 *(3) (C) and paragraph 4 (C) and (E)). For*
21 *the purpose of the preceding sentence, the increase in*
22 *operating assets for the taxable year shall be deter-*
23 *mined in the same manner as the increase in inad-*

missible assets for the taxable year is determined under paragraph (5). For the purpose of such determination, the term 'operating assets' means—

“(i) property used in the taxpayer's trade or business within the meaning of section 117 (j) (1), and

“(ii) stock in trade or other property of a kind which would properly be includible in the inventory of the taxpayer if owned at the close of the taxable year, and property held by the taxpayer primarily for sale to customers in the ordinary course of the taxpayer's trade or business,

except any such assets which constitute inadmissible assets, stock, securities, or intangible property (such intangible property not being limited to the property described in section 441 (i)).

“(C) The provisions of paragraph (9) shall not apply in any case in which the Secretary determines that the increase in operating assets is a result, directly or indirectly, of an increase in indebtedness of the taxpayer (other than indebtedness which constitutes borrowed capital).”

1 SEC. 508. ELECTION WITH RESPECT TO CERTAIN INADMISSIBLE
2 ASSETS.

3 (a) AMENDMENT OF SECTION 440.—Section 440
4 (relating to admissible and inadmissible assets) is hereby
5 amended by adding at the end thereof the following new
6 subsection:

7 “(c) TREATMENT OF GOVERNMENT OBLIGATIONS AS
8 ADMISSIBLE ASSETS.—If the taxpayer elects for any taxable
9 year, in accordance with regulations prescribed by the Secre-
10 tary, to increase its excess profits net income by an amount
11 equal to the amount by which the interest received or accrued
12 during the taxable year on Government obligations exceeds
13 the sum of—

14 “(1) the amount of interest paid or accrued during
15 such year which is not allowed as a deduction under
16 section 23 (b), and

17 “(2) the amount of the adjustments required for
18 the taxable year under section 22 (o) (relating to ad-
19 justment for certain bond premiums), but not in excess
20 of the amount of interest received or accrued during the
21 taxable year on Government obligations to which such
22 section is applicable,

23 then for the taxable year for which the election is made
24 the term ‘admissible assets’ shall include Government obliga-
25 tions, and the term ‘inadmissible assets’ shall not include

1 *Government obligations. For the purpose of applying sec-*
 2 *tion 435 to the taxable year for which the election is made,*
 3 *Government obligations shall not be considered 'inadmissible*
 4 *assets' in determining original inadmissible assets or yearly*
 5 *base period capital. As used in this subsection the term*
 6 *'Government obligations' means obligations described in sec-*
 7 *tion 22 (b) (4) the interest on which is wholly exempt from*
 8 *taxation under this chapter; but such term does not include*
 9 *any such obligation which is a capital asset. For the pur-*
 10 *pose of determining the excess profits credit for a taxable year*
 11 *for which the election is made, the excess profits net income*
 12 *under section 433 (b) for any taxable year shall in-*
 13 *clude the amount by which the interest received or accrued*
 14 *during such taxable year on Government obligations exceeds*
 15 *the amount of interest paid or accrued during such year*
 16 *which is not allowed as a deduction under section 23 (b)*
 17 *and, if the taxable year ends after June 30, 1950, the*
 18 *amount with respect to such year described in paragraph*
 19 *(2)."*

20 (b) *AMENDMENT OF SECTION 433 (a) (1).—Section*
 21 *433 (a) (1) (relating to adjustments in excess profits net*
 22 *income for the taxable year) is hereby amended by adding*
 23 *the following new subparagraph at the end thereof:*

24 “(S) *Interest on Certain Government Obliga-*

1 *tions.—For adjustment in the case of a taxpayer*
 2 *making an election provided in section 440 (c),*
 3 *relating to dealers in certain Government obligations,*
 4 *see section 440 (c)."*

5 *(c) AMENDMENT OF SECTION 433 (b).—Section 433*
 6 *(b) (relating to adjustments in excess profits net income for*
 7 *taxable years in base period) is hereby amended by adding*
 8 *at the end thereof the following new paragraph:*

9 *"(17) INTEREST ON CERTAIN GOVERNMENT OBLI-*
 10 *GATIONS.—For adjustment in the case of a taxpayer*
 11 *making an election provided in section 440 (c), relating*
 12 *to dealers in certain Government obligations, see section*
 13 *440 (c)."*

14 **SEC. 509. ALTERNATIVE AVERAGE BASE PERIOD NET INCOME.**

15 *(a) AMENDMENT OF SECTION 442.—Section 442 (re-*
 16 *lating to abnormalities during the base period) is hereby*
 17 *amended as follows:*

18 *(1) By inserting at the end of subsection (a) thereof*
 19 *the following:*

20 *"If such taxpayer is also entitled to the benefits of subsection*
 21 *(h), the taxpayer's average base period net income deter-*
 22 *mined under this section shall be the amount computed under*
 23 *subsection (c) or (d), whichever is applicable to the tax-*
 24 *payer, or the amount computed under subsection (h), which-*
 25 *ever results in the lesser tax under this subchapter for the*

1 *taxable year. In the case of any other taxpayer entitled to*
 2 *the benefits of subsection (h), the taxpayer's average base*
 3 *period net income determined under this section shall be the*
 4 *amount computed under subsection (h)."*

5 (2) *By striking out "determined under this section"*
 6 *in subsection (c) and (d) thereof each place it occurs*
 7 *and inserting in lieu thereof the following: "computed*
 8 *under this subsection".*

9 (3) *By inserting after "subsection (c) (2)" in*
 10 *subsection (e) (1) thereof the following: "and sub-*
 11 *section (h)".*

12 (4) *By redesignating subsections (h) and (i)*
 13 *thereof as (i) and (j), respectively, and by inserting*
 14 *after subsection (g) thereof the following new subsection:*

15 *"(h) ALTERNATIVE AVERAGE BASE PERIOD NET*
 16 *INCOME.—*

17 *"(1) GENERAL RULE.—A taxpayer which com-*
 18 *menced business on or before the first day of its base*
 19 *period shall be entitled to the benefits of this subsection if*
 20 *the aggregate of the excess profits net income for each of*
 21 *the 12 months selected under subparagraph (B) of this*
 22 *paragraph is less than 35 per centum of one-half of the*
 23 *average of the aggregate of the excess profits net income*
 24 *for each of the 24 months remaining under such sub-*

1 *paragraph. The average base period net income com-*
2 *puted under this subsection shall be computed as follows:*

3 *“(A) By determining under subsection (a)*
4 *the period subject to adjustment under this section.*

5 *“(B) By selecting from such period whichever*
6 *of the following 12 months result in the higher re-*
7 *maining aggregate excess profits net income or the*
8 *lower remaining aggregate deficit in excess profits*
9 *net income—*

10 *“(i) the 12 consecutive months the elimina-*
11 *tion of which produces the highest remaining*
12 *aggregate excess profits net income or the lowest*
13 *remaining aggregate deficit in excess profits net*
14 *income, or*

15 *“(ii) the 12 months which remain after re-*
16 *taining the 24 consecutive months which pro-*
17 *duce the highest remaining aggregate excess*
18 *profits net income or the lowest remaining ag-*
19 *gregate deficit in excess profits net income.*

20 *“(C) By computing for each month in the 12-*
21 *month period selected under subparagraph (B) a*
22 *substitute excess profits net income computed under*
23 *subsection (e).*

24 *“(D) By computing the sum of—*

25 *“(i) the aggregate of the substitute excess*

profits net income, as determined under subparagraph (C), for each month in the selected 12-month period, but the amount computed under this clause shall not exceed one-half of the average of the aggregate excess profits net income for each month in the 24-month period remaining under subparagraph (B), and

“(ii) the aggregate of the excess profits net income for each of the 24 months remaining under subparagraph (B), computed in the manner provided by the second sentence of section 435 (d) (1).

“(E) By dividing by three the amount ascertained under subparagraph (D).

“(2) SPECIAL RULE.—Except as otherwise provided in paragraph (1) (D) (ii), the excess profits net income for any month referred to in paragraph (1) shall be determined in the manner provided in section 435 (d) (1) without regard, however, to that part of such section which provides that in no event shall the excess profits net income of any corporation for any month be less than zero.”

(b) TECHNICAL AMENDMENTS.—

(1) Section 435 (f) (3) (relating to capital addition in the base period) is hereby amended by inserting

1 immediately after the words “under section 442 (c)
 2 (1)”, wherever appearing therein, the following: “or
 3 under section 442 (h)”.

4 (2) Section 461 (relating to definitions for pur-
 5 poses of part II) is hereby amended by inserting at the
 6 end thereof the following new subsection:

7 “(g) APPLICATION OF SECTION 442 (h).—For the
 8 purpose of this part, the reference to section 442 (c) in any
 9 section in this part shall be deemed a reference to section 442
 10 (c) or (h).”

11 SEC. 510. DEFINITION OF TOTAL ASSETS FOR PURPOSES OF SEC-
 12 TIONS 442–446.

13 Effective with respect to taxable years ending after the
 14 date of enactment of this Act, the first sentence of section 442
 15 (f) (relating to definition of total assets) is hereby amended
 16 to read as follows: “For the purposes of this section, the
 17 taxpayer’s total assets for any day shall be determined as of
 18 the end of such day and shall be an amount equal to the
 19 excess of—

20 “(1) the sum of the cash and the property (other
 21 than cash, inadmissible assets, and loans to members of
 22 a controlled group as defined in section 435 (f) (4))
 23 held by the taxpayer in good faith for the purposes of the
 24 business, over

25 “(2) the amount of any indebtedness (other than

borrowed capital as defined in section 439 (b) (1)) to a member of a controlled group (as defined in section 435 (g) (6)) which includes the taxpayer."

SEC. 511. AVERAGE BASE PERIOD NET INCOME—CHANGE IN PRODUCTS OR SERVICES.

Section 443 (f) (relating to change in products or services) is hereby amended to read as follows:

"(f) RULES FOR APPLICATION OF SECTION.—

"(1) The benefits of this section shall not be allowed unless the taxpayer makes application therefor in accordance with section 447 (e).

"(2) If after the end of the base period of the taxpayer there was a substantial change in the products produced by the taxpayer, such change shall, for the purpose of subsection (a) (1), be considered to have occurred on the last day of its base period if the taxpayer prior to July 1, 1950, commenced the construction of the facilities for the production of such new product, and if such construction and the production of such new product is in furtherance of a course of action to which the taxpayer (or a corporation with which the taxpayer has the privilege under section 141 of filing a consolidated return for its first taxable year under this subchapter) was committed prior to the close of the base period by contract with another person, which contract granted a

1 license, franchise, or similar right essential for the
2 production of such new product.”

3 SEC. 512. AVERAGE BASE PERIOD NET INCOME—NEW CORPORA-
4 TION.

5 Section 445 (c) (relating to total assets for first three
6 years of new corporation) is hereby amended by adding at
7 the end thereof the following new sentence: “For the purpose
8 of this subsection, the net capital addition or reduction shall
9 be computed without regard to the limitation to 75 per centum
10 provided in section 435 (g) (3). (C) and section 435 (g)
11 (4) (C) and (E).”

12 SEC. 513. EXCESS PROFITS CREDIT—REGULATED PUBLIC UTILI-
13 TIES.

14 Section 448 (c) (3) (relating to regulated public util-
15 ities) is hereby amended to read as follows:

16 “(3) 6 per centum in the case of a corporation en-
17 gaged as a common carrier (A) in the furnishing or
18 sale of transportation by railroad, if subject to the juris-
19 diction of the Interstate Commerce Commission, or (B)
20 in the furnishing or sale of transportation of oil or other
21 petroleum products (including shale oil) by pipe line, if
22 subject to the jurisdiction of the Interstate Commerce
23 Commission or to the jurisdiction of a public service or
24 public utility commission or other similar body of the
25 District of Columbia or of any State.”

1 SEC. 514. CONSOLIDATED RETURNS OF REGULATED PUBLIC
2 UTILITIES.

3 Section 448 (c) (relating to consolidated returns of
4 regulated public utilities) is hereby amended by adding at
5 the end thereof the following new sentence: "For pur-
6 poses of filing a consolidated return with its railroad lessee
7 corporation, a railroad lessor corporation described in section
8 434 (d) shall be considered a corporation described in
9 subsection (c) (3)."

10 SEC. 515. NONTAXABLE INCOME FROM CERTAIN MINING PROP-
11 erties.

12 Section 453 (b) (relating to nontaxable income from
13 exempt excess output) is hereby amended as follows:

14 (a) By amending the first sentence of subsection (a)
15 (13) thereof to read as follows: "The term 'unit net income'
16 means the amount ascertained by dividing the net income
17 (computed with the allowance for depletion) from the coal,
18 ore, sulphur, potash, metallurgical grade limestone, chemical
19 grade limestone, or timber recovered from the mineral prop-
20 erty, or timber block, as the case may be, during the taxable
21 year by the number of units of such mineral or timber recov-
22 ered from such property in such year."

23 (b) By inserting immediately after the words "coal
24 mining property" in subsection (b) (2) thereof the following:

1 “, or of a sulphur, potash, metallurgical grade limestone, or
2 chemical grade limestone mineral property,”.

3 (c) By striking out so much of subsection (b) (4) as
4 precedes the second sentence and inserting in lieu thereof
5 the following:

6 “(4) CERTAIN PROPERTIES NOT IN OPERATION
7 DURING NORMAL PERIOD.—For any taxable year, the
8 nontaxable income from exempt excess output of a metal
9 or coal mining property, of a sulphur, potash, metallurgi-
10 cal grade limestone, or chemical grade limestone mineral
11 property, of a timber block, or of a natural gas prop-
12 erty, which was not in operation during the normal
13 period, shall be an amount equal to one-third of the net
14 income for such taxable year (computed with the allow-
15 ance for depletion) from such property or timber block,
16 as the case may be.”

17 SEC. 516. TRANSITION FROM WAR PRODUCTION AND INCREASE
18 IN PEACETIME CAPACITY.

19 (a) IN GENERAL.—Part I of subchapter D of chapter
20 1 is hereby amended by adding at the end thereof a new
21 section to read as follows:

22 “SEC. 459. MISCELLANEOUS PROVISIONS.

23 “(a) AVERAGE BASE PERIOD NET INCOME—TRAN-
24 SITION FROM WAR PRODUCTION AND INCREASE IN
25 PEACETIME CAPACITY.—In the case of a taxpayer which

1 commenced business before January 1, 1940, and since such
2 date has engaged primarily in manufacturing, the taxpayer's
3 average base period net income determined under this sub-
4 section shall be the amount computed under section 435
5 (e) (2) (G) (i) and (ii) if—

6 “(1) The adjusted basis for determining gain of
7 the taxpayer's total facilities (as defined in section 444
8 (d)) as of the first day of its base period (when added
9 to the total facilities for such day of all corporations
10 with which the taxpayer has the privilege under section
11 141 of filing a consolidated return for its first taxable
12 year under this subchapter) did not exceed \$10,000,000;

13 “(2) The basis (unadjusted) for determining gain
14 of the taxpayer's total facilities (as defined in sec. 444
15 (d)) on the last day of its base period was 250 per
16 centum or more of the basis (unadjusted) for determining
17 gain of its total facilities on the first day of its base
18 period;

19 “(3) The percentage of the taxpayer's aggregate gross
20 income which was from contracts with the United States
21 or related subcontracts or both was (A) at least 70 per
22 centum for the period comprising all taxable years be-
23 ginning after December 31, 1941, and ending before
24 January 1, 1946, (B) less than 20 per centum for the
25 period comprising all taxable years ending after De-

1 cember 31, 1945, and before January 1, 1950, and
 2 (C) less than 20 per centum for the period comprising
 3 all taxable years ending after December 31, 1949, and
 4 beginning before July 1, 1950; and

5 “(4) The monthly average of the excess profits net
 6 income of the taxpayer (computed under section 433
 7 (b)) (A) for all taxable years ending with or within
 8 the last 24 months of its base period, and (B) for the
 9 last taxable year ending before the first day of its base
 10 period, are each 300 per centum or more of such
 11 monthly average for all taxable years ending with or
 12 within the first 24 months of its base period.”

13 (b) *TECHNICAL AMENDMENTS.*—Section 435 (c)
 14 (relating to determination of average base period net income)
 15 is hereby amended as follows:

16 (1) By inserting immediately after “445 or 446,”
 17 the following: “or any subsection of section 459,”.

18 (2) By inserting immediately after “or under such
 19 section” the following: “or subsection”.

20 *SEC. 517. BASE PERIOD CATASTROPHE.*

21 Section 459, as added by section 516 of this Act, is
 22 hereby amended by adding after subsection (a) thereof the
 23 following new subsection:

24 “(b) *BASE PERIOD CATASTROPHE.*—In the case of a

1 *taxpayer which was engaged throughout its base period pri-*
2 *marily in manufacturing, if—*

3 “(1) *the taxpayer suffered during the last thirty-six*
4 *months of its base period a catastrophe by fire, storm,*
5 *explosion, or other casualty which destroyed or rendered*
6 *inoperative a production facility constituting a complete*
7 *plant or plants having in the hands of the taxpayer*
8 *immediately prior to the catastrophe an adjusted basis*
9 *for determining gain equal to 15 per centum or more*
10 *of the adjusted basis for determining gain of all the*
11 *taxpayer's production facilities at such time;*

12 “(2) *as a result of such catastrophe the taxpayer's*
13 *normal production or operation was substantially inter-*
14 *rupted for a period of more than twelve consecutive*
15 *months; and*

16 “(3) *the taxpayer, prior to the end of its base*
17 *period, replaced such production facility with a pro-*
18 *duction facility which at the end of its base period had*
19 *in its hands an adjusted basis for determining gain*
20 *not less than such adjusted basis immediately prior to*
21 *the catastrophe of the production facility destroyed or*
22 *rendered inoperative,*

23 *the taxpayer's average base period net income determined*
24 *under this subsection shall be an amount computed under*

1 section 435 (d) by substituting for the excess profits net
 2 income for each month in the taxable year in which the
 3 catastrophe occurred an amount equal to (A) the aggregate
 4 of the excess profits net income for each month (computed
 5 under section 435 (d) (1)) in the base period preceding
 6 the taxable year in which the catastrophe occurred (B)
 7 divided by the number of such preceding base period months.
 8 The taxpayer's average base period net income determined
 9 under this subsection shall, for the purpose of section 435
 10 (a) (1) (B), be considered an average base period net
 11 income determined under section 435 (d)."

12 **SEC. 518. CONSOLIDATION OF NEWSPAPERS.**

13 Section 459, as added by sections 516 and 517 of this
 14 Act, is hereby amended by adding after subsection (b)
 15 thereof the following new subsection:

16 "(c) **CONSOLIDATION OF NEWSPAPER OPERATIONS.**—
 17 In the case of a taxpayer engaged primarily in the news-
 18 paper publishing business in its last taxable year ending be-
 19 fore July 1, 1950, the taxpayer's average base period net
 20 income determined under this subsection shall be the amount
 21 computed under section 435 (e) (2) (but computed without
 22 regard to section 435 (e) (2) (G)) if—

23 "(1) After the close of the first half of the base
 24 period of the taxpayer and prior to July 1, 1950, the
 25 taxpayer consolidated its mechanical, circulation, adver-

1 *tising, and accounting operations in connection with its*
2 *newspaper publishing business with such operations of*
3 *another corporation engaged in the newspaper publishing*
4 *business in the same area;*

5 *“(2) The taxpayer establishes to the satisfaction*
6 *of the Secretary that, during the period beginning with*
7 *the consolidation and ending with the close of the first*
8 *taxable year beginning after the consolidation, such con-*
9 *solidation resulted in substantial reductions in the*
10 *amounts which would otherwise have been paid or in-*
11 *curring as expenses in the conduct of the operations de-*
12 *scribed in paragraph (1);*

13 *“(3) The total deductions of the taxpayer under*
14 *section 23, computed without regard to section 23 (s)*
15 *and (bb), for the first taxable year beginning after such*
16 *consolidation were not in excess of 80 per centum of*
17 *the average of such deductions for the two taxable years*
18 *of the taxpayer next preceding the taxable year in which*
19 *such consolidation began; and*

20 *“(4) The excess profits net income of the taxpayer,*
21 *computed as provided in section 433 (b), for the first*
22 *taxable year of the taxpayer beginning after such con-*
23 *solidation was 125 per centum or more of the amount*
24 *determined under section 435 (d) (4).*

1 *This subsection shall not be applicable to any taxable year*
 2 *of the taxpayer unless the consolidation described in para-*
 3 *graph (1) was continued throughout such taxable year.”*

4 **SEC. 519. TELEVISION BROADCASTING COMPANIES.**

5 *Section 459, as added by sections 516 to 518 of this*
 6 *Act, is hereby amended by adding after subsection (c)*
 7 *thereof the following new subsection:*

8 **“(d) TELEVISION BROADCASTING COMPANIES.—**

9 **“(1) IN GENERAL.—***In the case of a taxpayer*
 10 *engaged in the business of television broadcasting*
 11 *throughout a period beginning before January 1, 1951,*
 12 *and ending with the close of the taxable year, the tax-*
 13 *payer’s average base period net income determined under*
 14 *this subsection shall be the amount computed as follows:*

15 **“(A) In the case of a corporation which at the**
 16 **close of its base period was engaged only in the**
 17 **business of television broadcasting, an amount com-**
 18 **puted by multiplying its total assets (as defined in**
 19 **section 442 (f)) on the last day of its base period by**
 20 **the base period rate of return determined under**
 21 **section 447 (c) for the industry classification which**
 22 **includes radio broadcasting.**

23 **“(B) In the case of a corporation which at the**
 24 **close of its base period was engaged only in the**
 25 **business of television broadcasting and radio broad-**

casting, an amount computed by multiplying its total assets (as defined in section 442 (f)) on the last day of its base period by either its individual rate of return (as defined in paragraph (2)) or by the base period rate of return determined under section 447 (c) for the industry classification which includes radio broadcasting, whichever rate of return produces the greater average base period net income under this subsection.

“(C) In the case of a corporation which at the end of its base period was engaged in the business of television and in another business or businesses, an amount computed by determining its average base net income under section 435 (d) for its businesses other than television broadcasting and other than radio broadcasting (determined without regard to income, deductions, losses, or other items from such television and radio broadcasting businesses), and by adding thereto an amount computed under subparagraph (B) by including in total assets only such part thereof as was attributable to the radio broadcasting business, if any, and to the television broadcasting business on the last day of its base period.

“(D) In the case of a corporation which ac-

1 quires its television broadcasting business after the
2 close of its base period and before January 1, 1951,
3 an amount computed by determining its average base
4 period net income without regard to this subpara-
5 graph and by adding thereto an amount computed
6 under subparagraph (B) by including in total as-
7 sets on the last day of its base period the amount
8 (and only that amount) which would be included
9 with respect to the television business if the television
10 business had been acquired on the last day of its base
11 period.

12 The Secretary shall by regulations prescribe the rules for
13 the application of this subsection, the rules for the com-
14 putation of the taxpayer's net capital addition, and the
15 rules for the avoidance of duplication in any case in
16 which assets included in computing total assets under
17 subparagraph (B) are acquired, directly or indirectly,
18 through the use of assets used in a business of the tax-
19 payer other than radio or television broadcasting or, in
20 the case of a taxpayer described in subparagraph (D),
21 through the use of assets held at any time during its base
22 period.

23 “(2) *INDIVIDUAL RATE OF RETURN.*—The indi-
24 vidual rate of return shall be computed as follows:

25 “(A) By determining the amount of the tax-

1 payer's total assets (as defined in section 442 (f))
2 attributable to the business of radio broadcasting
3 for the last day of each month in its base period.

4 “(B) By computing the aggregate of the
5 amounts ascertained under subparagraph (A) and
6 dividing by 48.

7 “(C) By computing for each month in the
8 base period the excess profits net income of the
9 radio broadcasting business (determined without
10 regard to income, deductions, losses, or other items
11 attributable to any other business), by adding such
12 amounts for all of the months in the base period,
13 and by dividing by four.

14 “(D) By dividing the amount computed under
15 subparagraph (C) by the amount computed under
16 subparagraph (B).

17 “(3) *INTEREST ADJUSTMENT.*—In any case in
18 which an amount is computed under paragraph (1)
19 (A), or is computed under paragraph (1) (B) by the
20 use of a base period rate of return determined under
21 section 447 (c), the amount so computed shall, for the
22 purpose of this subsection, be reduced by an amount equal
23 to the total interest paid or incurred by the taxpayer for
24 the twelve months ending with the close of its base period,
25 and in the case of any amount determined under para-

graph (1) (C) or (D) by reference to paragraph (1) (B) the amount so determined shall be reduced by such portion of such interest as the total assets determined under paragraph (1) (B) is of the total assets of the taxpayer determined under section 442 (f) for the last day of its base period.

“(4) APPLICATION OF PART II.—The Secretary shall prescribe regulations for the application of part II in the case of a transaction described in section 461 (a) involving an acquiring corporation otherwise entitled to the benefits of this section.”

SEC. 520. EXCESS PROFITS CREDIT BASED ON INCOME IN CONNECTION WITH CERTAIN TAXABLE ACQUISITIONS.

(a) GENERAL RULE.—Subchapter D (relating to the excess profits tax) of chapter 1 is hereby amended by inserting immediately following section 472 the following new part:

“Part IV—Excess Profits Credit Based on Income in Connection With Certain Taxable Acquisitions Occurring Prior to December 1, 1950

“SEC. 474. EXCESS PROFITS CREDIT BASED ON INCOME—CERTAIN TAXABLE ACQUISITIONS.

“(a) DEFINITIONS.—For the purpose of this part—

“(1) PURCHASING CORPORATION.—The term ‘purchasing corporation’ means a corporation which, before December 1, 1950, acquired—

1 “(A) All or substantially all of the properties
2 (other than cash) of another corporation or of a
3 partnership in a transaction other than a transaction
4 described in section 461 (a); or

5 “(B) Properties of another corporation, in a
6 transaction other than a transaction described in
7 section 461 (a), if (i) such properties constituted,
8 immediately prior to the acquisition, all of the prop-
9 erties (other than cash) of a separate business of
10 such other corporation and (ii) all or substantially
11 all of the properties (other than cash) of such other
12 corporation were transferred, in furtherance of a
13 single plan of complete liquidation for such other
14 corporation, to the purchasing corporation and to
15 one or more other corporations; or

16 “(C) Properties from a corporation solely as
17 paid-in surplus or a contribution to capital in
18 respect of voting stock owned by such corporation
19 if such properties are all or substantially all of
20 the properties (other than cash) acquired immedi-
21 ately prior thereto by such corporation as a pur-
22 chasing corporation in a transaction described in
23 subparagraph (A) or (B).

24 “(2) SELLING CORPORATION.—The term ‘selling
25 corporation’ means a corporation or a partnership, as

1 the case may be, properties of which were acquired in
2 a transaction described in subparagraph (A) or (B)
3 of paragraph (1) by a purchasing corporation or by
4 the corporation referred to in subparagraph (C) of
5 paragraph (1).

6 “(3) *PART IV TRANSACTION.*—The term ‘part IV
7 transaction’ means a transaction described in paragraph
8 (1).

9 “(b) *AVERAGE BASE PERIOD NET INCOME OF PUR-*
10 *CHASING CORPORATION.*—The average base period net in-
11 come under section 435 (d) of a purchasing corporation
12 shall be determined by computing its excess profits net income
13 either with or without reference to this part, whichever pro-
14 duces the lesser tax under this subchapter for the taxable year
15 for which the tax is being computed. The excess profits net
16 income of such purchasing corporation, if computed under
17 this part, shall be the excess profits net income for each
18 month of such purchasing corporation’s base period increased
19 or decreased, as the case may be, by the addition or reduction
20 resulting from including the excess profits net income (or
21 deficit therein) for such month properly attributable to the
22 business acquired by the purchasing corporation and properly
23 allocable to such purchasing corporation.

24 “(c) *LIMITATIONS.*—This part shall apply only if each
25 of the following conditions is satisfied:

1 “(1) Immediately following the part IV transaction
2 (or the last such transaction described in subsection
3 (a) (1) (B)), the selling corporation discontinued all
4 business activities and was completely liquidated in a
5 transaction other than a transaction described in section
6 461 (a).

7 “(2) During so much of the base period of the pur-
8 chasing corporation and of the period thereafter as
9 preceded the part IV transaction, the properties acquired
10 in the part IV transaction were substantially all of the
11 properties (other than cash) which were used by the
12 selling corporation, or by a component corporation
13 (as defined in section 461 (b)) of such selling corpora-
14 tion, in the operation of the business the assets of which
15 were acquired by the purchasing corporation. For the
16 purpose of this paragraph, if the business in the hands
17 of both the selling corporation and the purchasing cor-
18 poration was operated under a substantially identical
19 franchise or license, granted by the same person, such
20 franchise or license shall be deemed acquired by the pur-
21 chasing corporation from the selling corporation.

22 “(3) The business acquired in the part IV trans-
23 action was operated by the purchasing corporation from
24 the date of such transaction to the end of the taxable year.

25 “(d) SPECIAL RULE.—For the purpose of subsection

1 (c) (1) (C), in determining whether property is acquired
 2 solely as paid-in surplus or a contribution to capital in
 3 respect of voting stock, the assumption by the purchasing
 4 corporation of a liability of the transferring corporation, or
 5 the fact that the property acquired is subject to a liability,
 6 shall be disregarded.

7 “(e) REGULATIONS.—The Secretary shall by regula-
 8 tions prescribe the rules (consistent with the principles of
 9 part II) for the application of this part to the parties to a
 10 part IV transaction, including rules for the application
 11 under this part of the principles described in section 462 (j)
 12 (1) and the other provisions of part II relating to the pre-
 13 vention of duplication, rules for the proper application to the
 14 parties to a part IV transaction of the provisions of this
 15 subchapter relating to capital changes, and rules for the de-
 16 termination of the amount of excess profits net income (or
 17 deficit therein) attributable to the business acquired by a
 18 purchasing corporation in a part IV transaction and prop-
 19 erly allocable to such purchasing corporation.”

20 (b) TECHNICAL AMENDMENTS.—

21 (1) Section 435 (a) (3) (relating to amount of
 22 excess profits credit) is hereby amended by inserting
 23 before the period at the end thereof the following: “, and
 24 in the case of certain taxable acquisitions, see part IV
 25 of this subchapter”.

(2) Section 462 (b) (relating to the method of recomputation of excess profits net income of an acquiring corporation) is hereby amended by adding at the end thereof the following new paragraph:

“(4) The Secretary shall provide by regulations for the application of this subsection in any case in which a purchasing corporation, as defined in part IV, is the component corporation.”

SEC. 521. EFFECTIVE DATE OF TITLE V.

Except as otherwise provided in section 510, the amendments made by this title shall be applicable only with respect to taxable years ending after June 30, 1950.

**TITLE V VI—MISCELLANEOUS PROVISIONS
AND AMENDMENTS**

**SEC. 501 601. EXEMPTION OF CERTAIN ORGANIZATIONS
FROM INCOME TAX FOR PRIOR TAXABLE
YEARS.**

Section 302 of the Revenue Act of 1950 (relating to exemption of certain organizations for past years) is amended by adding at the end thereof the following new subsection:

“(d) PROFITS INURING TO THE BENEFIT OF CERTAIN EDUCATIONAL ORGANIZATIONS.—For any taxable year beginning prior to January 1, 1951, an organization operated for the primary purpose of carrying on a trade or business for profit, no part of the net earnings of which inures to the

benefit of any private shareholder or individual and all of the net earnings of which inure to the benefit of an educational organization which normally maintains a regular faculty and curriculum and normally has a regularly organized body of pupils or students in attendance at the place where its educational activities are regularly carried on, shall not be denied exemption from taxation under section 101 of the Internal Revenue Code on the ground that it is carrying on a trade or business for profit."

SEC. 502. EXCESS PROFITS CREDIT BASED ON INCOME.

~~(a) PERCENTAGE OF AVERAGE BASE PERIOD NET INCOME TAKEN INTO ACCOUNT.—~~

~~(1) IN GENERAL.—~~Paragraph ~~(1)~~ ~~(A)~~, and paragraph ~~(2)~~, of section 435 ~~(a)~~ (relating to excess profits credit based on income) are each amended by striking out "85 per centum" and inserting in lieu thereof "75 per centum".

~~(2) TAXABLE YEARS BEGINNING BEFORE JANUARY 1, 1951, AND ENDING AFTER DECEMBER 31, 1950.—~~Section 435 ~~(a)~~ is hereby amended by adding at the end thereof the following new paragraph:

~~"(4) TAXABLE YEARS BEGINNING IN 1950 AND ENDING IN 1951.—~~In the case of a taxable year beginning before January 1, 1951, and ending after December 31, 1950, there shall be used, for the pur-

poses of paragraph ~~(1)~~ ~~(A)~~ and paragraph ~~(2)~~, in lieu of 85 per centum of the average base period net income, an amount equal to the sum of—

“(A) that portion of an amount equal to 85 per centum of the average base period net income which the number of days in such taxable year prior to January 1, 1951, bears to the total number of days in such taxable year, plus

~~(B)~~ that portion of an amount equal to 75 per centum of the average base period net income which the number of days in such taxable year after December 31, 1950, bears to the total number of days in such taxable year.”

~~(b)~~ **EFFECTIVE DATE.**—The amendments made by subsection ~~(a)~~ shall be applicable only with respect to taxable years ending after December 31, 1950.

SEC. 602. FOREIGN ESTATE TAX CREDIT.

(a) CREDIT AGAINST BASIC ESTATE TAX.—Section 813 (relating to credits against estate tax) is hereby amended by adding at the end thereof the following new subsection:

“(c) *SAME—PAID TO FOREIGN COUNTRIES.*—

“(1) *IN GENERAL.*—The tax imposed by section 810 shall be credited with the amount of any estate, inheritance, legacy, or succession taxes actually paid to any foreign country in respect of any property situated

1 *within such foreign country and included in the gross*
 2 *estate (not including any such taxes paid with respect to*
 3 *the estate of a person other than the decedent). If the*
 4 *decedent at the time of his death was not a citizen of the*
 5 *United States, credit shall not be allowed under this*
 6 *subsection unless the foreign country of which such*
 7 *decedent was a citizen or subject, in imposing such taxes,*
 8 *allows a similar credit in the case of a citizen of the*
 9 *United States resident in such country. The deter-*
 10 *mination of the country within which property is situ-*
 11 *ated shall be made in accordance with the rules applica-*
 12 *ble under Part III of this subchapter in determining*
 13 *whether property is situated within or without the United*
 14 *States.*

15 “(2) *LIMITATIONS ON CREDIT.*—*The credit pro-*
 16 *vided in this subsection with respect to such taxes paid to*
 17 *any foreign country—*

18 “(A) *shall not exceed an amount which bears*
 19 *the same ratio to the taxes actually paid to such*
 20 *foreign country as the value of property which is—*

21 “(i) *situated within such foreign country,*

22 “(ii) *subjected to the taxes of such foreign*
 23 *country, and*

24 “(iii) *included in the gross estate*

bears to the value of all property subjected to the taxes of such foreign country; and

“(B) shall not exceed an amount which bears the same ratio to the tax imposed by section 810 (after deducting from such tax the credits provided by subsections (a) and (b) of this section) as the value of property which is—

“(i) situated within such foreign country,

“(ii) subjected to the taxes of such foreign country, and

“(iii) included in the gross estate bears to the value of the entire gross estate reduced by the aggregate amount of the deductions allowed under subsections (c), (d), and (e) of section 812.

“(3) VALUATION OF PROPERTY.—

“(A) The values referred to in the ratio stated in paragraph (2) (A) are the values determined for the purposes of the taxes imposed by such foreign country.

“(B) The values referred to in the ratio stated in paragraph (2) (B) are the values determined under this chapter; but, in applying such ratio, the value of any property described in clauses (i), (ii), and (iii) thereof shall be reduced by such amount

1 as will properly reflect, in accordance with regula-
2 tions prescribed by the Secretary, the deductions
3 allowed in respect of such property under subsec-
4 tions (c), (d), and (e) of section 812.

5 “(4) *PROOF OF CREDIT.*—The credits provided in
6 this subsection and in section 936 (c) shall be allowed
7 only if the taxpayer establishes to the satisfaction of the
8 Secretary (A) the amount of taxes actually paid to the
9 foreign country, (B) the amount and date of each pay-
10 ment thereof, (C) the description and value of the prop-
11 erty in respect of which such taxes are imposed, and
12 (D) all other information necessary for the verification
13 and computation of the credits.

14 “(5) *PERIOD OF LIMITATION.*—The credits pro-
15 vided in this subsection and in section 936 (c) shall be
16 allowed only for such taxes as were actually paid and
17 credit therefor claimed within four years after the filing
18 of the return required by section 821, except that—

19 “(A) If a petition for redetermination of a
20 deficiency has been filed with The Tax Court of the
21 United States within the time prescribed in section
22 871, then within such four-year period or before
23 the expiration of 60 days after the decision of The
24 Tax Court becomes final.

25 “(B) If, under section 822 (a) (2) or section

871 (h), an extension of time has been granted for payment of the tax shown on the return, or of a deficiency, then within such four-year period or before the date of the expiration of the period of the extension.

Refund based on such credits may (despite the provisions of sections 910 to 912, inclusive) be made if claim therefor is filed within the period above provided. Any such refund shall be made without interest."

(b) CREDIT AGAINST ADDITIONAL ESTATE TAX.—
Section 936 (relating to credits against estate tax) is hereby amended by adding at the end thereof the following new subsection:

"(c) ESTATE, ETC., TAXES PAID TO FOREIGN COUNTRIES.—

"(1) IN GENERAL.—In the case of the estate of a citizen or resident of the United States, the tax imposed by section 935 shall be credited with the amount of any estate, inheritance, legacy, or succession taxes actually paid to any foreign country in respect of any property situated within such foreign country and included in the gross estate (not including any such taxes paid with respect to the estate of a person other than the decedent).

If the decedent at the time of his death was not a citizen

1 *of the United States, credit shall not be allowed under*
2 *this subsection unless the foreign country of which such*
3 *decedent was a citizen or subject, in imposing such taxes,*
4 *allows a similar credit in the case of a citizen of the*
5 *United States resident in such country. The determina-*
6 *tion of the country within which property is situated shall*
7 *be made in accordance with the rules applicable under*
8 *Part III of subchapter A in determining whether prop-*
9 *erty is situated within or without the United States.*

10 “(2) *LIMITATIONS ON CREDIT.*—*The credit pro-*
11 *vided in this subsection with respect to such taxes paid to*
12 *any foreign country—*

13 “(A) *shall not exceed the amount by which such*
14 *taxes paid to the foreign country exceed the amount*
15 *of the credit allowed therefor under section 813 (c);*
16 *and*

17 “(B) *shall not exceed an amount which bears*
18 *the same ratio to the tax imposed by section 935*
19 *(after deducting from such tax the credit provided*
20 *by subsection (b) of this section) as the value of*
21 *property which is—*

22 “(i) *situated within such foreign country,*

23 “(ii) *subjected to the taxes of such foreign*
24 *country, and*

25 “(iii) *included in the gross estate*

bears to the value of the entire gross estate reduced by the aggregate amount of the deductions allowed under subsections (c), (d), and (e) of section 812.

“(3) *SAME—SPECIAL RULES.*—

“(A) For the purposes of paragraph (2) (A), ‘such taxes paid to the foreign country’ shall be an amount which bears the same ratio to the taxes actually paid to such foreign country as the value of property which is—

“(i) situated within such foreign country,

“(ii) subjected to the taxes of such foreign country, and

“(iii) included in the gross estate bears to the value of all property subjected to the taxes of such foreign country. The values referred to in this ratio are the values determined for the purposes of the taxes imposed by such foreign country.

“(B) The values referred to in the ratio stated in paragraph (2) (B) are the values determined under this chapter; but, in applying such ratio, the value of any property described in clauses (i), (ii), and (iii) thereof shall be reduced by such amount as will properly reflect, in accordance with regulations prescribed by the Secretary, the deductions

1 allowed in respect of such property under subsec-
2 tions (c), (d), and (e) of section 812.

3 “(4) *PROOF OF CREDIT.*—

4 “*For provisions relating to proof of credit, see*
5 *section 813 (c) (4).*”

6 “(5) *PERIOD OF LIMITATION.*—

7 “*For provisions relating to period of limitation*
8 *on claiming of credit or refund based thereon and*
9 *nonpayment of interest on refund, see section 813*
10 *(c) (5).*”

11 (c) *REVERSIONARY OR REMAINDER INTEREST.*—

12 *Section 927 (relating to credit for State death taxes) is*
13 *hereby amended to read as follows:*

14 “*SEC. 927. CREDIT FOR DEATH TAXES.*

15 “*Such part of any estate, inheritance, legacy, or succes-*
16 *sion taxes allowable as a credit under section 813 (b) or*
17 *(c) against the tax imposed by this subchapter, or under*
18 *section 936 (c) against the tax imposed by subchapter B,*
19 *as is attributable to such reversionary or remainder interest*
20 *may be allowed as a credit against the tax attributable to*
21 *such interest, subject to the limitations on the amount of*
22 *credit contained in such sections, if such part is paid, and*
23 *credit therefor claimed, at any time prior to the expiration*

1 of 60 days after the termination of the precedent interest or
2 interests in the property.”

3 (d) *EXTENSION OF PERIOD OF LIMITATIONS, ETC.,*
4 *IN CASE OF RECOVERY OF TAXES CLAIMED AS*
5 *CREDIT.*—Section 874 (b) (relating to exceptions to gen-
6 eral rule as to period of limitation upon assessment and col-
7 lection of estate tax) is hereby amended by inserting at the
8 end thereof the following new paragraph:

9 “(3) *RECOVERY OF TAXES CLAIMED AS CREDIT.*—
10 If any tax claimed as a credit under section 813 (b)
11 or (c) or section 936 (c) is recovered from any foreign
12 country, any State, any Territory or possession of the
13 United States, or the District of Columbia, the executor,
14 or any other person or persons recovering such amount,
15 shall give notice of such recovery to the Secretary at such
16 time and in such manner as may be required by regula-
17 tions prescribed by him, and the Secretary shall redeter-
18 mine the amount of the tax under this chapter and the
19 amount, if any, of the tax due upon such redetermination,
20 shall be paid by the executor or such person or persons, as
21 the case may be, upon notice and demand.”

22 (e) *EFFECTIVE DATE.*—The amendments made by this
23 section shall be applicable with respect to estates of decedents
24 dying after the date of the enactment of this Act.

1 SEC. 503 603. ESTATE AND GIFT TAX TREATMENT OF UNITED
2 STATES BONDS HELD BY CERTAIN NONRESI-
3 DENT ALIENS.

4 (a) ESTATE TAX.—Effective with respect to estates of
5 decedents dying after February 10, 1939, section 861 (re-
6 lating to the computation of the net estate of a decedent
7 nonresident not a citizen of the United States) is hereby
8 amended by adding at the end thereof the following new
9 subsection:

10 “(c) UNITED STATES BONDS.—For the purposes of
11 subsection (a), the value of the gross estate (determined
12 as provided in section 811) of a decedent who was not
13 engaged in business in the United States at the time of his
14 death—

15 “(1) shall not include obligations issued by the
16 United States prior to March 1, 1941; and

17 “(2) shall include obligations issued by the United
18 States on or after March 1, 1941, but only if the dece-
19 dent died after the date of the enactment of the Revenue
20 Act of 1951.”

21 (b) GIFT TAX.—Effective with respect to gifts made
22 after the date of enactment of this Act, section 1000 (b)
23 (relating to application of gift tax) is hereby amended by
24 adding at the end thereof the following: “In the case of such
25 a nonresident who is not engaged in business in the United

1 States at the time of a transfer of obligations issued by the
 2 United States, the tax shall apply in respect of any such
 3 obligations only if issued on or after March 1, 1941.”

4 **SEC. 604. ESTATE TAX EXEMPTION FOR WORKS OF ART LOANED**
 5 **BY NONRESIDENT ALIENS.**

6 (a) *AMENDMENT OF SECTION 863 (c).*—Section 863
 7 (c) (relating to exemption of works of art loaned by non-
 8 resident aliens) is hereby amended to read as follows:

9 “(c) *WORKS OF ART ON LOAN FOR EXHIBITION.*—
 10 Works of art owned by a nonresident not a citizen of the
 11 United States (1) imported into the United States solely for
 12 exhibition purposes, (2) loaned for such purposes to a public
 13 gallery or museum, no part of the net earnings of which inure
 14 to the benefit of any private stockholder or individual, and
 15 (3) at the time of the death of the owner, on exhibition, or
 16 en route to or from exhibition, in such a public gallery or
 17 museum.”

18 (b) *EFFECTIVE DATE.*—The amendment made by this
 19 section shall be applicable only with respect to estates of
 20 decedents dying after the date of the enactment of this Act.

21 **SEC. 605. EXEMPTION FROM ADDITIONAL ESTATE TAX OF MEM-**
 22 **BERS OF ARMED FORCES UPON DEATH.**

23 Section 939 (relating to the estate tax treatment of certain
 24 members of the armed forces) is hereby amended as follows:

1 (1) *By inserting before the first sentence thereof the*
 2 *following:*

3 “(a) *DEATHS AFTER DECEMBER 6, 1941 AND BEFORE*
 4 *JANUARY 1, 1947.—*”.

5 (2) *By adding at the end thereof the following:*

6 “(b) *DEATHS AFTER JUNE 24, 1950 AND BEFORE*
 7 *JANUARY 1, 1954.—The tax imposed by section 935 shall*
 8 *not apply to the transfer of the net estate of a citizen or resi-*
 9 *dent of the United States dying after June 24, 1950, and*
 10 *before January 1, 1954, while in active service as a member*
 11 *of the armed forces of the United States, if such decedent—*

12 “(1) *was killed in action while serving in a combat*
 13 *zone, as determined under section 22 (b) (13); or*

14 “(2) *died as a result of wounds, disease, or injury*
 15 *suffered, while serving in a combat zone (as determined*
 16 *under section 22 (b) (13)) and while in line of duty,*
 17 *by reason of a hazard to which he was subjected as an*
 18 *incident of such service.”*

19 **SEC. 606. TRANSFERS CONDITIONED UPON SURVIVORSHIP.**

20 *In the case of property transferred by a decedent dying*
 21 *after March 18, 1937, and before February 11, 1939, the*
 22 *determination of whether such property is to be included in*
 23 *his gross estate under section 302 (c) of the Revenue Act of*
 24 *1926 (44 Stat. 70) as a transfer intended to take effect in*
 25 *possession or enjoyment at or after his death shall be made in*

1 *conformity with Treasury Regulations in force at the time*
2 *of his death.*

3 **SEC. 607. TRANSFERS WITH INCOME RESERVED.**

4 *Section 7 (b) of the Act entitled "An Act to amend*
5 *certain provisions of the Internal Revenue Code", approved*
6 *October 25, 1949 (63 Stat. 895), is hereby amended by*
7 *striking out "January 1, 1950" and inserting in lieu thereof*
8 *"January 1, 1951".*

9 **SEC. 608. TRANSFERS TAKING EFFECT AT DEATH.**

10 *Effective with respect to estates of decedents dying after*
11 *February 10, 1939, section 7 (b) of the Act entitled "An*
12 *Act to amend certain provisions of the Internal Revenue*
13 *Code", approved October 25, 1949 (63 Stat. 895), is hereby*
14 *amended by striking out the word "sentence" and inserting*
15 *in lieu thereof "two sentences" and by inserting immediately*
16 *preceding the last sentence thereof the following sentence:*
17 *"The provisions of section 811 (c) (1) (C) of such code*
18 *shall not apply to a transfer made prior to September 8,*
19 *1916." The provisions of section 7 (c) of such Act, as*
20 *amended, shall not apply to an overpayment resulting from*
21 *the application of this section.*

22 **SEC. 609. REVERSIONARY INTERESTS IN CASE OF LIFE INSUR-**
23 **ANCE.**

24 *If refund or credit of any overpayment resulting from*
25 *the application of section 503 of the Revenue Act of 1950 is*

1 *prevented on the date of the enactment of this Act, or within*
2 *one year from such date, by the operation of any law or rule*
3 *of law (other than section 3760 of the Internal Revenue*
4 *Code, relating to closing agreements, and other than section*
5 *3761 of such code, relating to compromises), refund or credit*
6 *of such overpayment may, nevertheless, be made or allowed*
7 *if claim therefor is filed within one year from the date of*
8 *enactment of this Act.*

9 **SEC. 610. INCOME PURSUANT TO AWARD OF INTERSTATE COM-**
10 **MERCE COMMISSION.**

11 *Notwithstanding section 42 of the Internal Revenue*
12 *Code, amounts received, pursuant to an award under the*
13 *order issued under the Railway Mail Pay Act of 1916 by the*
14 *Interstate Commerce Commission on December 4, 1950, as*
15 *compensation for the transportation of mail during 1950 and*
16 *prior years shall be deemed to be income which accrued*
17 *in the taxable years in which the services to which such*
18 *compensation relates were rendered. Notwithstanding sec-*
19 *tion 292 of such code, no interest shall be assessed or collected*
20 *for any period prior to July 1, 1951, with respect to*
21 *that part of any deficiency which the Secretary determines*
22 *to be attributable to the inclusion of income in a taxable year*
23 *by reason of the application of this section. Any deficiency*
24 *attributable to the inclusion of income in any taxable year*
25 *by reason of the application of this section may be assessed*

1 at any time prior to the expiration of the period for assess-
2 ment with respect to the taxable year of the taxpayer which
3 includes December 4, 1950, notwithstanding the provisions
4 of section 275 of the Internal Revenue Code or any other
5 provision of law or rule of law which would otherwise prevent
6 such assessment.

7 **SEC. 611. CREDIT IN PRIOR TAXABLE YEARS FOR DIVIDENDS**
8 **RECEIVED ON PREFERRED STOCK OF A PUBLIC**
9 **UTILITY.**

10 In the case of taxable years beginning before April 1,
11 1951, any reference in section 15 (a) or 26 (b) of the
12 Internal Revenue Code to dividends received on the pre-
13 ferred stock of a public utility shall be construed as re-
14 ferring only to dividends received on the preferred stock of
15 a public utility with respect to which the credit provided
16 in section 26 (h) of such Code for dividends paid was
17 allowable.

18 **SEC. 612. CONSOLIDATED RETURNS—INCLUDIBLE CORPORATION.**

19 If an affiliated group making a consolidated return with
20 respect to the first taxable year of the group ending after
21 June 30, 1950, included a corporation described in section
22 454 (f) of the Internal Revenue Code pursuant to the con-
23 sent provided in section 141 (e) (7) of such code, such
24 corporation may withdraw such consent at any time within
25 ninety days after the enactment of this Act. If such consent

1 *is withdrawn under the preceding sentence, the tax liability*
2 *of the affiliated group and its several members for the taxable*
3 *year shall be determined, assessed, and collected as if such*
4 *corporation had never joined in the making of the consolidated*
5 *return.*

6 SEC. 613. TIME FOR PERFORMING CERTAIN ACTS POSTPONED
7 IN CASE OF CHINA TRADE ACT CORPORATIONS.

8 *Section 3805 (relating to postponement of income tax due*
9 *dates in the case of China Trade Act corporations) is hereby*
10 *amended to read as follows:*

11 "SEC. 3805. INCOME TAX DUE DATES POSTPONED IN CASE OF
12 CHINA TRADE ACT CORPORATIONS.

13 *"In the case of any taxable year beginning after De-*
14 *cember 31, 1948, and ending before October 1, 1953, no*
15 *Federal income tax return of, or payment of any Federal*
16 *income tax by, any corporation organized under the China*
17 *Trade Act of 1922 (42 Stat. 849, U. S. C., Title 15,*
18 *chapter 4), as amended, shall become due until December*
19 *31, 1953, but only with respect to any such corporation and*
20 *any such taxable year which the Secretary may determine*
21 *reasonable under the circumstances in China pursuant to*
22 *such regulations as he may prescribe. Such due date shall*
23 *be subject to the power of the Secretary to extend the time*
24 *for filing such return or paying such tax, as in other cases."*

1 SEC. 614. TREATY OBLIGATIONS.

2 *No amendment made by this Act shall apply in any case*
3 *where its application would be contrary to any treaty obliga-*
4 *tion of the United States.*

5 SEC. ~~504~~ 615. REORGANIZATION PLAN NUMBERED 26 OF 1950.

6 The provisions of Reorganization Plan Numbered 26
7 of 1950 shall be applicable to all functions vested by this
8 Act in any officer, employee, or agency of the Department
9 of the Treasury.

Passed the House of Representatives June 22, 1951.

Attest:

RALPH R. ROBERTS,

Clerk.

82ND CONGRESS
1ST SESSION

H. R. 4473

[Report No. 781]

AN ACT

To provide revenue, and for other purposes.

JUNE 25 (legislative day, JUNE 21), 1951

Read twice and referred to the Committee on Finance

SEPTEMBER 18 (legislative day, SEPTEMBER 13), 1951

Reported with amendments

The Senator from Wisconsin [Mr. McCARTHY], the Senator from Oregon [Mr. MORSE], and the Senator from Nebraska [Mr. WHERRY] are necessarily absent.

The Senator from New Hampshire [Mr. TOBEY] is absent because of illness.

The Senator from Pennsylvania [Mr. DUFF], and the Senator from Ohio [Mr. TAFT], are detained on official business.

The result was announced—yeas 23, nays 58, as follows:

YEAS—23

Alken	Ives	Mundt
Case	Johnston, S. C.	Murray
Douglas	Kilgore	Neely
Flanders	Knowland	Nixon
Frear	Langer	Schoepfel
Fulbright	Lehman	Smith, Maine
Gillette	Monroney	Williams
Humphrey	Moody	

NAYS—58

Bennett	Green	McKellar
Benton	Hayden	McMahon
Brewster	Hendrickson	Millikin
Bricker	Hill	O'Mahoney
Bridges	Hoey	Pastore
Butler, Md.	Holland	Robertson
Butler, Nebr.	Hunt	Russell
Cain	Jenner	Saltonstall
Capehart	Johnson, Colo.	Smith, N. J.
Carlson	Johnson, Tex.	Smith, N. C.
Clements	Kem	Sparkman
Connally	Kerr	Stennis
Cordon	Lodge	Thye
Dirksen	Long	Underwood
Dworshak	Malone	Watkins
Eastland	Martin	Welker
Eaton	Maybank	Wiley
Ellender	McCarran	Young
Ferguson	McClellan	
George	McFarland	

NOT VOTING—15

Anderson	Hickenlooper	O'Connor
Byrd	Kefauver	Smathers
Chavez	Magnuson	Taft
Duff	McCarthy	Tobey
Hennings	Morse	Wherry

So Mr. DOUGLAS' amendment was rejected.

Mr. DOUGLAS. Mr. President, I wish to call up another amendment, which I hope the Senator from Colorado [Mr. JOHNSON] will accept. It is amendment 9-17-51—C.

The VICE PRESIDENT. The clerk will state the amendment.

The CHIEF CLERK. On page 19, between lines 16 and 17, it is proposed to insert the following:

(5) The Board shall, by written notice to the air carrier, terminate any payments under this subsection upon finding, after notice and hearing, that gratuities (in the form of entertainment, gifts, or otherwise) were offered or given by such air carrier or its agent or representative to any officer or employee of the Government with a view toward securing favorable treatment under any provisions of this act.

Mr. DOUGLAS. Mr. President, the language of the amendment is identical with the language in the amendment, offered by the Senator from Wyoming, which was inserted in the military appropriation bill, namely, to provide that if entertainment or gratuities are offered by any airline to any governmental officer or employee the subsidy will cease to be paid. I do not want to go into detail and I wish to be very careful in the choice of my language. I believe the adoption of the amendment would be a source of real civic improvement,

if I may say so, and would help matters along very much. I hope the Senator from Colorado will accept the amendment.

Mr. JOHNSON of Colorado. Mr. President, I see no objection whatever to the amendment.

The PRESIDING OFFICER (Mr. FREAR in the chair). Without objection, the amendment—

Mr. BREWSTER. Mr. President—

The PRESIDING OFFICER. The Senator from Maine.

Mr. BREWSTER. I am sorry that I must be so vociferous. I wish the Senator from Illinois [Mr. DOUGLAS] would interpret the amendment. He refers to governmental officer or employee. I should like to be clear as to whether he includes Members of Congress within the scope of the amendment.

Mr. DOUGLAS. I myself would think so.

Mr. BREWSTER. I want to be sure about it. At various times intimations with reference to gifts have been made, which under oath have been demonstrated to be false, but which continue to be made by some persons who desire to circulate such information for their own purposes. There should be no doubt that the amendment would apply to Members of Congress, as well as to officials and employees of the Government generally.

Mr. DOUGLAS. I appreciate the statement of the Senator from Maine. It is very well to clarify the situation. I wish to make it clear that there is no personal implication on the part of the Senator from Illinois with respect to anyone, either inside or outside of Congress. The amendment is designed to guard against a certain situation.

Mr. HUNT. Mr. President, I should like to ask—

The PRESIDING OFFICER. Does either Senator in control of time yield time to the Senator from Wyoming?

Mr. JOHNSON of Colorado. I yield whatever time the Senator from Wyoming desires to take.

Mr. HUNT. I thank the Senator from Colorado. I should like to ask the Senator from Illinois, in view of the colloquy which has just taken place, if in the future the junior Senator from Wyoming, or any other Senator, will be denied the privilege of dining with an airline official?

Mr. DOUGLAS. It would be much safer if the junior Senator from Wyoming paid his own check.

Mr. HUNT. I ask the question seriously, because there is a very definite implication, and I should like to have it cleared up.

Mr. DOUGLAS. I will not suggest to the Senator from Wyoming what he should do, because the Senator from Wyoming has a very sensitive conscience on such matters, and I do not intend to prescribe to him what he should do. My own feeling is that if I were invited out by a representative of an airline I would personally pay for my own meal. I do not care to say that my interpretation

in that respect is superior to that of any other Senator. Does the Senator from Wyoming wish to ask another question?

Mr. HUNT. I am thoroughly satisfied with the answer given by the Senator from Illinois. I know that from now on I shall have to deny myself the pleasure of dining out with the Senator from Illinois.

Mr. DOUGLAS. I am not a representative of any airline. We can continue to entertain each other as much as we wish. The adoption of the amendment might bar free meals offered by an airline.

Mr. NEELY. Mr. President, will the Senator from Illinois yield?

Mr. DOUGLAS. Yes.

Mr. NEELY. I should like to inquire of the eminent Senator from Illinois whether his statement would hold good provided the meal which was offered to the Senator from Wyoming was not worth more than a 12-pound ham.

The PRESIDING OFFICER. The question is on the amendment offered by the Senator from Illinois, [Mr. DOUGLAS]. Without objection, the amendment is agreed to.

The bill is open to further amendment. If there be no further amendment to be offered, the question is on agreeing to the committee amendment, as amended.

The amendment, as amended, was agreed to.

The PRESIDING OFFICER. The question is on the engrossment and third reading of the bill.

The bill was ordered to be engrossed for a third reading, and was read the third time.

The PRESIDING OFFICER. The question is on the passage of the bill. The bill (S. 436) was passed.

REVENUE ACT OF 1951

Mr. McFARLAND. Mr. President, I move that the Senate proceed to the consideration of Calendar 737, House bill 4473, to provide revenue, and for other purposes.

The PRESIDING OFFICER. The secretary will state the bill by title.

The LEGISLATIVE CLERK. A bill (H. R. 4473) to provide revenue, and for other purposes.

The PRESIDING OFFICER (Mr. FREAR in the chair). The question is on agreeing to the motion of the Senator from Arizona.

The motion was agreed to; and the Senate proceeded to consider the bill (H. R. 4473) to provide revenue, and for other purposes, which had been reported from the Committee on Finance with amendments.

Mr. GEORGE. Mr. President, I am quite willing to proceed with an explanation of the bill, if we may have order in the Senate; but I do not wish to proceed if we are to have turmoil and lack of order.

The PRESIDING OFFICER. The Chair will attempt to maintain order in the Senate.

Mr. GEORGE. Mr. President, this bill is the third bill for raising revenue

since the outbreak of hostilities in Korea. The first bill, the Revenue Act of 1950, increased the tax on individuals and corporations and made some increases in excise taxes. The second bill, the Excess Profits Tax Act of 1950, levied an excess-profits tax upon corporations at a rate of 30 percent and increased the corporate surtax by 2 percentage points. Thus in a period of less than 4 months we increased the tax burden of the American people by almost \$10,000,000,000 prior to Korean hostilities. This, when added to the present revenue receipts of nearly \$51,000,000,000 from the law in effect prior to the Korean War, makes the total current tax bill of the American people approximately \$61,000,000,000; and of this total amount, 84 percent comes from income taxes.

Under this bill, the staff estimates that we are adding another \$5,500,000,000, making a total of \$66,500,000,000. My own view is that this bill during a full year of operation will add \$6,000,000,000 to the revenue and will make a total of \$67,000,000,000, in round numbers. I believe that at the current high levels, this bill will produce at least \$6,000,000,000 in a full year of operation. But even with the staff estimate of \$5,500,000,000, the total revenue, including the taxes now imposed, exceeds the highest revenue collected in any 1 year in World War II by over \$21,500,000,000. Of the additional amount imposed by this bill, \$4,427,000,000 comes from the individual income and corporation income taxes. I am convinced that we have already reached the point of diminishing returns, so far as the income tax is concerned, and that any further revenue to be raised must come from an entirely new form of taxation. I believe that any further increase in income taxes will not only discourage the taxpayer from any effort to produce further income, but will also encourage businesses to become extravagant, wasteful, and inefficient.

There have been frequent discussions of what the total tax "take" may be without doing injury to our economy. There is no fixed limit; the limit is to be found only when the tax "take" destroys the incentive of the people and when it leads to every conceivable effort to evade and to wasteful practices by the taxpayers themselves. There is a definite limit, but it is not to be indicated by "X" or "Y" or "Z"; it is to be indicated by its effect upon the taxpayers.

The per capita burden will be about \$435; and thus the bill affects every man, woman, and child in the country. Our chief hope is to use all of our efforts to reduce nonessential Federal spending.

Congress made a little progress in that direction; yet within the past few days we have wiped out all the gains, and we now register a net loss, as against the original budget estimates submitted by the President at the beginning of this session of the Congress.

The pending bill increases income taxes, corporation income and excess profits taxes, and excise taxes. Of the total amount, \$2,367,000,000 comes from the individual income tax; \$2,060,000,000 from the corporate income and excess

profits tax; \$1,275,000,000 from the excise taxes; and there is a loss of \$196,000,000 from structural changes. Our committee held hearings on this bill for a period of over 1 month, and heard approximately 200 witnesses. The testimony is available in three volumes.

INDIVIDUAL INCOME TAXES

In determining the increases on individual incomes, our committee adopted the same method which was applied with respect to the 10-percent defense tax imposed by the Revenue Act of 1940. In the lower- and middle-income groups, the income tax under existing law is much smaller than the take-home pay of individuals, whereas in the upper-income groups the tax under existing law is greater than the take-home pay. There was considerable opposition to the provisions of the House version of the bill, which would levy a flat 12½-percent increase in the individual income tax on individuals, particularly in view of the increases imposed on individuals last year and in previous bills.

The compromise which our committee worked out is to levy in effect an 11-percent increase in the tax or an 8-percent tax increase on the take-home pay, whichever is the lesser. These increases are integrated in a rate schedule which appears in the bill.

Your committee's bill increases the taxes of those individuals with incomes of \$5,000 or less by \$953,000,000, or just short of \$1,000,000,000; and for those with incomes over \$5,000, by \$1,415,000,000. This is a total increase of \$2,368,000,000 from the individual income tax. Of this total 40 percent comes from those with incomes of \$5,000 or less and 60 percent from those with incomes over \$5,000. Under the committee's bill, individuals with incomes under \$5,000 will pay \$9,637,000,000 in income taxes, or 37.32 percent of the total individual tax burden. Those with incomes in excess of \$5,000 will pay \$16,186,000,000 in income taxes, or 62.68 percent of the burden. Under the committee bill, the total tax bill on each individual taxpayer will be extremely high. This is due to the fact that as a result of our action taken last year, income taxes already are near the World War II level; and with these increases they will actually reach or exceed that level. They would exceed it substantially in all brackets, if we changed the exemption of \$600 for each taxpayer to \$500, which was the exemption during World War II and until the tax bill of 1948.

First, let us look at a single person to see something of the impact of the tax. A single person paid \$345 on an income of \$2,000 during World War II, and he will pay \$311 under the committee bill, or slightly less. On an income of \$5,000, he paid \$1,105 during World War II, and he will pay \$1,048 under this bill. With a \$15,000 income, he paid \$4,930 during World War II, and he will pay \$4,940 under the committee bill; that is to say, his tax will be higher than it was under the tax law in effect at the end of World War II. With a \$100,000 income, his tax during World War II was \$69,870, and under this bill his tax

on the same income will be \$69,344, or substantially the same.

The tax on married people, due to the split-income provision, is somewhat less than the tax on single people, ranging from \$178 on an income of \$2,000 to \$56,468 on an income of \$100,000. The committee felt that the increases should be of a temporary nature. The bill, therefore, provides that they will expire on December 31, 1953.

Part of the increase on individuals is effective for the year 1951. Under the House bill, about one-third of the full increase would apply to 1951 incomes, and under your committee's bill about one-sixth will apply to 1951 incomes, due entirely to the time of the passage of the bill in the House, and the probable passage of the bill in the Senate. These differences are due to the differences in the effective dates, as I have indicated. The House bill would have been effective September 1 and your committee's bill will become effective November 1.

HEAD OF HOUSEHOLD

Your committee adopted a provision giving special relief for persons qualifying as head of a household.

Both the committee bill and the House bill extend some of the benefits of income splitting, now allowed only to married persons, to single persons with family responsibilities. This is done by providing a separate rate schedule for heads of households. A "head of household" is defined as an individual who is not married and who maintains in his household one or more of his children or their descendants; or parents or certain other specified close relatives who receive more than one-half of their support from the taxpayer and who have gross income of less than \$600. The House bill extends one-half of the benefits of income-splitting to single people qualifying, whereas under the committee's bill 25 percent of the benefit is extended to single people. Since single people do not have to file a joint return with their dependents to get relief, the committee was of the opinion that only one-fourth of the benefit should be allowed in such cases.

JOINT OR SEPARATE RETURNS AND THE STANDARD DEDUCTION

Under present law, married taxpayers may file either a separate return or a single joint return. The election once made is binding with respect to the taxable year for which the return is filed.

The present law allows an individual to use the optional standard deduction in lieu of itemizing his personal deductions, such as charitable contributions, medical and dental expenses, and so forth. The election to use the standard deduction is likewise binding upon the taxpayer.

Your committee's bill provides that married individual income taxpayers who file separate returns may exercise the right to change their election and file joint returns at any time within the period of the statute of limitations. That is a change in existing law. Also, individuals who have elected to use the standard deduction when filing their returns may revoke this election and file an amended return itemizing their deductions at any time within the statute

of limitations. This is a change in existing law. The right to change these elections is made applicable to taxable years beginning after December 31, 1949.

INCOME OF DEPENDENTS

Under present law, the credit for a dependent is \$600, but the taxpayer cannot claim such a credit if the dependent has gross income of \$500 or more. Your committee believes that these provisions of present law should be brought into conformity. Your committee's bill, therefore, allows the credit if the income of the person claimed as a dependent is less than \$600.

ADDITIONAL WITHHOLDING UPON AGREEMENT BY EMPLOYER AND EMPLOYEE

Taxpayers with incomes from salaries and wages in excess of the first surtax bracket do not have their tax liability fully covered by withholding. Thus, they are required to file declarations of estimated tax and pay additional amounts to the collector. Your committee's bill permits additional amounts to be withheld on wages and salaries in cases where the employer and employee agree to such additional withholding. A similar provision is contained in the House bill.

MEDICAL EXPENSES

Under the present law, a taxpayer is not allowed a deduction for his medical or dental expenses unless they exceed 5 percent of his adjusted gross income. There is also a maximum limitation of \$2,500. Your committee believes that this 5-percent limitation works a severe hardship on taxpayers who have reached 65 years of age, when their earning capacity naturally declines. The committee's bill, therefore, removes this 5 percent limitation for medical or dental expenses attributable to the taxpayer or his spouse if either is 65 years of age or over. In other words, in that case the total amount of medical and hospital and dental expenses may be deducted, up to the maximum fixed in the law, without regard to the 5-percent limitation on adjusted gross income, which the taxpayer himself must now bear.

CAPITAL GAINS

Your committee's bill does not increase the 25 percent tax on capital gains. The House bill increased this tax by 12½ percent. It is believed that the capital gains tax is already high enough. The top capital gains rate immediately prior to World War II was 15 percent. This was increased to 16.5 percent by the Defense Act of 1940. The rate was again increased in 1942 to 25 percent, and has never been reduced below the war level. Since the realization of capital gains is a matter wholly within the discretion of the taxpayer, he does not have to take gains or make losses, and, since the World War II rate is still in effect, your committee is of the opinion that a further increase in the capital gains rate might have a deterrent effect on the realization of income and a resulting loss of revenue. Experience in the past, indeed, has shown that a too high capital gain rate may actually, and has actually, resulted in a loss in revenue. It can easily do so again, because the tax is one which one

may pay if he elects to sell a capital asset, or which he may escape or avoid if he elects to hold a capital asset. The resulting net effect is a loss of ordinary income as well as a loss of the capital gains tax.

The committee bill increases the corporate rate by 5 percentage points. This is the same increase which was provided in the House bill. However, the House applied this increase entirely to the normal tax, and the committee bill applies 2 percent of the increase to the normal tax and 3 percent of the increase to the surtax. Since corporations with incomes of \$25,000 or less are exempt from the surtax, the committee bill increases the rate on small corporations only from 25 percent to 27 percent, whereas under the House bill the rate on such corporations is increased from 25 percent to 30 percent, because the entire increase of 5 percent is placed on the normal tax.

In the case of corporations with incomes in excess of \$25,000, the rate is increased from 47 percent to 52 percent. It was with great reluctance that the committee increased the corporate rate beyond 50 percent. Personally, I believe that our whole economy may suffer if we attempt to maintain a corporate rate at a level as high as 52 percent over any extended period of time. Indeed, Mr. Wilson, Director of Defense Mobilization, pointed out in his testimony before the committee that the rate of tax on corporations should be less than 50 percent in order to provide for expansion in a peacetime economy.

Canada has a much lower rate than we have at the present time, and it also imposes no excess-profits tax upon its citizens. The Canadian effective rate of tax on corporations range from 15 percent to 45½ percent, as compared with the rates under the pending bill ranging from 27 percent to approximately 52 percent.

Furthermore, Canada has no excess-profits tax, as I have just stated, while we have an excess-profits tax of 30 percent. The committee bill terminates the corporate increases also as of December 31, 1953. The committee bill does not increase the 25 percent capital-gains tax on corporations, as I have already stated. The House bill did increase this rate by 12.5 percent. It is already at the World War II peak, as I have indicated, and the committee is of the opinion that it should not be disturbed.

Under the House bill, the average earnings credit for excess-profits-tax purposes was reduced from 85 percent to 75 percent. The committee did not believe this to be a wise course. While under the present law the 15 percent reduction in the earnings may be justified in arriving at normal average earnings, because of the inflation in our economy, a 25-percent reduction does not appear to be wise. Normal earnings should not be taxed at excess-profits rates, and if the base is reduced below 100 percent of the normal earnings, either 75 percent or 85 percent, it is, of course, a tax on the excess-profits rate. Furthermore—and I emphasize this—such a drastic cut in the credit will have a decided tendency to penalize corporations using the average-earnings method and, in fact, will penalize all corporations, especially the

young and growing corporations using the average-earnings method, and favor those using the invested-capital basis.

I wish to emphasize this point, because the drive to tax normal earnings at an excess-profits rate on top of a 52-percent normal and surtax rate has back of it the motive to cripple the corporations which must depend upon average earnings rather than the large corporations which have an enormous invested capital. It is the one sure, certain step to monopoly in America. Make no mistake about that.

Our Canadian friends were much wiser than the degree of wisdom, at least, which we have exercised south of the Canadian border, when it declined even to place an excess-profits tax upon its people in a period of peace.

One of our most difficult problems involved the adoption of an over-all ceiling rate. Under the present law the ceiling rate is 62 percent. Under the House bill the ceiling rate is fixed at 70 percent. The committee bill provided a new type of ceiling rate. In other words, it adopted a new formula. Under this ceiling rate the excess-profits tax cannot exceed 17 percent of the excess profits net income. The 2 percent consolidated return rate is included in the 17-percent figure, so that where a corporation pays a normal and surtax rate of approximately 52 percent, the total tax rate amounts to approximately 69 percent. Where the normal and surtax effective rate is much lower than 52 percent, under the formula adopted by the committee, the over-all rate will be much less than 69 percent.

For example, a corporation with an income of \$100,000 has an effective rate of normal and surtax of 45.75 percent. Adding the 17 percent to this figure makes its total over-all rate—that is, the total amount that can be taken from it—62.75 percent.

It will be seen at a glance that under this formula an advantage is given to young, growing, smaller corporations, while the rate runs up on the larger corporations to approximately the over-all ceiling fixed by the House itself.

I may say, Mr. President, that the committee was most reluctant to make the corporate rate increase retroactive. For myself, I do not hesitate to say that on principle it cannot be defended except upon the basis of getting an additional quick revenue.

Under the House bill, the effective rate on corporations was fixed as of January 1, 1951, a whole year back. Because of the urgent need for revenue your committee decided to make the corporate increases effective as of April 1, 1951, that is, after the lapse of the first quarter of the year.

It must be said, of course, that the corporations were on notice that the increase in the corporate rate, whatever it might be, would likely be made effective as of July 1, or at some other period in the year 1951. It must also be said that the corporate earnings would indicate that for the large number of corporations the rate may be made retroactive to July 1, or April 1, or even for the whole year, as the House has done, without serious injury to those corporations, on the average.

I question very seriously whether the picture may not be different in the case of some of the utilities whose rates are fixed by law and are limited by law, and particularly utilities which have declared dividends for the first and even for the second quarter of the current year. But as I have indicated, the pressing need for additional revenue persuaded your committee to make this tax retroactive to April 1, and that is recommended in the committee bill.

There are about 415,000 corporations with taxable net income. Seventy percent, or about 292,000 corporations, have incomes of less than \$25,000. These corporations have 4.8 percent of the total taxable income and bear 3.6 percent of the increases in tax liabilities provided by the House bill, but only 1.9 percent of the increase in the tax liabilities under your committee's bill.

That, I may say to the Senate, is the whole story, or at least a large part of the story, of why your committee has made the provisions which I have already enumerated in the interest of the smaller corporations in order to give them a chance to live and to grow.

Bear in mind that under the House bill the rate upon the 292,000 corporations with earnings of \$25,000 or less, would bear 3.6 percent of the increases in that bill, whereas they bear only 1.9 percent of the increases in the committee bill, which is submitted for the Senate's consideration.

Of the total number of corporations there are 45,000, or about 11 percent, with incomes of \$100,000 and over. These 45,000 corporations have 87.3 percent of the total taxable income. These corporations would bear approximately 89.3 percent of the increase provided by the House bill, and about 92.4 percent of the increase provided by your com-

mittee's bill. That necessarily results since we have lightened the burdens of a large number, numerically, of corporations with earnings of only \$25,000 or less.

EXCISE-TAX CHANGES

The changes made in excise taxes under the Finance Committee's bill, when fully effective, will increase revenues by \$1,275,000,000, as compared with \$1,252,000,000 under the House bill. Almost all of the increased excise-tax revenue under both bills is raised from the manufacturers' excises, the new taxes on gambling, and the taxes on alcoholic beverages and tobacco. No rate increases are made in the case of the retail excises, the excises on transportation and communication, or the admission taxes.

I ask unanimous consent to insert in the RECORD a table showing the revenue effect, by major sources, of the excise-tax changes made by the bill.

The PRESIDING OFFICER. Without objection, it is so ordered.

The table is as follows:

Excise-tax revenue raised by the bill by major sources

[At estimated fiscal year 1952 levels of production and consumption but in a full year of operation]

Type of excise tax	Additional revenue	
	House bill	Committee bill
	Millions of dollars	Millions of dollars
Alcoholic beverages.....	252	252
Tobacco products.....	177	167
Manufacturer.....	447	496
Retail.....	-5	-7
Transportation and communication.....	-5	-14
Amusement and recreation.....	-21	-18
Gambling.....	407	407
Total.....	1,252	1,283

Mr. GEORGE. Mr. President, the changes in the excise taxes made by the Finance Committee will become effective on the first day of the first month which begins more than 10 days after the date of the enactment of the bill. That is the earliest practicable date on which they can be made effective. No termination date was provided under the House bill, but the Finance Committee fixes December 31, 1953, as the date when the excise-tax increases will expire, along with the increases in the individual and corporate rates.

Assuming that November 1 is the effective date for the changes in the excise taxes, it is estimated that the Finance Committee's bill will increase excise-tax revenues by \$823,000,000 in the fiscal year 1952—this includes floor-stock taxes—thus raising total receipts for 1952 from excises to \$9,383,000,000. With the same assumption, the House bill would increase excise-tax collections in 1952 by \$811,000,000, raising total excise-tax receipts in 1952 to \$9,371,000,000, a little less than the amount raised under the Senate bill.

Before describing briefly the changes made in excise taxes, I ask unanimous consent, Mr. President, to insert at this point in the RECORD a table which compares the excise-tax changes made by the House bill with those made by the Finance Committee.

The PRESIDING OFFICER. Without objection, it is so ordered.

The table is as follows:

Excise tax rates under present law, the House bill and Finance Committee bill

	Present law		House bill		Finance Committee bill	
	Tax base	Rate	Change in base	Rate	Change in base	Rate
Alcoholic beverages:						
Distilled spirits.....	Per proof-gallon.....	\$9.....	None.....	\$10.50.....	None.....	\$10.50.
Fermented malt liquor.....	Per barrel.....	\$8.....	do.....	\$9.....	do.....	\$9.
Still wine.....	Gallon, by alcoholic content.....	15 cents, 60 cents, \$2.....	do.....	17 cents, 67 cents, \$2.25.....	do.....	17 cents, 67 cents, \$2.25.
Sparkling wine.....	Half pint.....	15 cents, 10 cents.....	do.....	17 cents, 12 cents.....	do.....	17 cents, 12 cents.
Occupational:						
Distilled spirits:						
Retail dealers.....	Per year.....	\$27.50.....	do.....	\$50.....	do.....	\$50.
Wholesale dealers.....	do.....	\$110.....	do.....	\$200.....	do.....	\$200.
Fermented malt liquors.....	do.....	\$55.....	do.....	\$100.....	do.....	\$100.
Tobacco:						
Cigarettes.....	Per 1,000.....	\$3.50.....	do.....	\$4.....	do.....	\$4.
Chewing tobacco.....	Per pound.....	18 cents.....	do.....	No change.....	do.....	10 cents.
Snuff.....	do.....	do.....	do.....	do.....	do.....	Do.
Manufacturers':						
Gasoline.....	Per gallon.....	1½ cents.....	Includes Diesel fuel.....	2 cents.....	do.....	2 cents.
Passenger automobiles and motorcycles.....	Manufacturer's price.....	7 percent.....	Retain present rate on house trailers.....	10 percent.....	Exempt house trailers.....	10 percent.
Automobile trucks, busses, and truck trailers.....	do.....	5 percent.....	None.....	8 percent.....	None.....	8 percent.
Automobile parts and accessories.....	do.....	do.....	Exempt rebuilt parts and those used on farm machinery.....	do.....	Same as House bill.....	Do.
Tires.....	Per pound.....	5 cents.....	Exempt if less than 20 inches in diameter or with internal wire fasteners.....	No change.....	do.....	No change.
Electric, gas and oil appliances.....	Manufacturer's price.....	10 percent.....	Certain items added.....	do.....	Items added by House bill plus others; few deletions from present law.....	Do.
Refrigerators, quick-freeze, and air conditioners.....	do.....	do.....	None.....	do.....	Exempt sales to manufacturers.....	Do.
Radios, television, phonographs, records and musical instruments.....	do.....	do.....	Exempt certain equipment sold to U. S. Government.....	do.....	Same as House bill.....	Do.
Electrical energy.....	Charge.....	3½ percent.....	Repeal.....	Repeal.....	Repeal.....	Repeal.....

Excise tax rates under present law, the House bill and Finance Committee bill—Continued

	Present law		House bill		Finance Committee bill	
	Tax base	Rate	Change in base	Rate	Change in base	Rate
Manufacturers—Continued						
Sporting goods.....	Manufacturers' price.....	10 percent.....	Numerous items exempted.....	15 percent.....	Modification of exemptions in House bill.....	15 percent.....
Photographic apparatus and film.....	do.....	25 percent, 15 percent.....	Exempt business-cost items.....	20 percent.....	None.....	Do.....
Fountain pens, mechanical pencils.....	do.....	do.....	Manufacturers' price.....	do.....	Manufacturers' price.....	10 percent.....
Cigarette, cigar, and pipe mechanical lighters.....	do.....	do.....	(See retailers).....	do.....	do.....	Do.....
Retailers' taxes:						
Jewelry.....	Retail price.....	Generally 20 percent.....	Extend to cigar, cigarette, and pipe lighters.....	20 percent.....	None.....	No change.....
Toilet preparations.....	do.....	20 percent.....	Exempt baby oil, etc; barber and beauty shop supplies.....	No change.....	Same as House bill.....	Do.....
Gambling taxes:						
Coin-operated gaming devices.....	Per year.....	\$150.....	None.....	\$250.....	None.....	\$250.....
Wagering.....	do.....	do.....	Amount wagered.....	10 percent.....	Same as House bill.....	10 percent.....
Occupation of accepting wagers.....	do.....	do.....	Per year.....	\$50.....	do.....	\$50.....
Transportation and communication taxes:						
Transportation of property.....	Charge.....	3 percent (4 cents per ton of coal).....	To include transportation of oil by barge.....	No change.....	Excludes excavation material moved to adjacent area.....	No change.....
Transportation of persons.....	do.....	15 percent.....	Exclude fishing trips.....	do.....	Excludes fishing trips and certain ocean travel.....	Do.....
Domestic telegraph, cable, and radio.....	do.....	25 percent.....	None.....	20 percent.....	None.....	15 percent.....
Toll telephone.....	do.....	do.....	do.....	No change.....	Exempt calls to and from servicemen in combat areas.....	No change.....
Amusement taxes:						
General admissions.....	Established price.....	20 percent.....	Exempt various nonprofit organizations; reduced price tickets taxed on actual amount paid.....	do.....	Similar to House bill with more restrictions.....	Do.....
Cabarets.....	Taxable amount.....	do.....	Exclude incidental refreshments served at ball rooms.....	do.....	Same as House bill.....	Do.....
Bowling alleys, billiard and pool tables.....	Per alley or table.....	\$20.....	None.....	\$25.....	None.....	Do.....

Mr. GEORGE. Mr. President, I also ask unanimous consent to insert in the RECORD, without reading, a section-by-section analysis, so to speak, of the various excise taxes, beginning with the alcoholic beverages and all manufacturing excise taxes included in the committee bill.

The PRESIDING OFFICER. Without objection, it is so ordered.

The analysis is as follows:

A. Alcoholic beverages: The tax on distilled spirits is increased from \$9 to \$10.50 per proof gallon and a draw-back of \$9.50 per proof gallon is provided for distilled spirits used for medicines, medicinal preparations, food products, or flavoring extracts; the tax on wines is increased approximately 12½ percent; the tax on beer is increased from \$8 per barrel to \$9; and the special annual occupational tax of \$27.50 on retail dealers in liquor is increased to \$50 a year; occupational taxes on wholesale dealers in liquors and wholesale dealers in wines are increased from the present \$110 to \$200, and the occupational tax on the wholesale dealer in malt liquors is raised from \$55 to \$100.

B. Tobacco products: No changes are made in the present taxes on cigars and smoking tobacco, but the Finance Committee reduced the tax on snuff and fine-cut, scrap, plug, and twist chewing tobacco from 18 cents per pound to 10 cents per pound, and adopted the House provision increasing the tax on small cigarettes from \$3.50 to \$4 per thousand. This, in effect, increases the tax on cigarettes from 7 cents to 8 cents a pack.

C. Manufacturers' excises: The Finance Committee adopted the House provision increasing the tax on gasoline from 1½ cents to 2 cents per gallon but rejected the House provision which would tax Diesel fuel for Diesel-powered highway vehicles; the Finance Committee accepted the House provision increasing the tax on passenger cars and motorcycles from 7 to 10 percent of the manufacturers' price but removed the tax on house trailers; the committee also went

along with the House in increasing the tax on automobile trucks, busses, truck trailers, and automotive parts and accessories from 5 to 8 percent of the manufacturers' price; the committee accepted the House provision excluding from the 5-cents-per-pound manufacturers' tax on tires, those tires used on toys. It deleted electric heating pads, industrial-type direct motor-driven fans and electric heaters of the blower type from the tax covering electric, gas, and oil appliances, while adding others such as electric washing machines and vacuum cleaners, but did not increase the present rate of tax on this group. The committee bill also contains the House provision exempting from the tax on radio receiving sets, television receiving sets, etc., a communication, detection, or navigation receiver of the commercial type if sold to the United States for its exclusive use. A new provision was added by the committee which provides that the tax on refrigerating and freezing apparatus is not to apply to sales of refrigerator components to wholesalers or jobbers where the components are intended for resale to manufacturers or producers of refrigeration and freezing equipment, if the components are actually resold in this manner. From the tax on sporting goods the committee, along with the House bill, removed specific types of articles which are used predominantly for school sports and by children, but the committee added baseballs and baseball equipment to the exempt list, while adding to the taxable items cricket balls and bats, lacrosse equipment, skates, and snow toboggans and sleds. The committee raised, as did the House bill, the tax on sporting goods from 10 to 15 percent of the manufacturers' price with respect to items remaining in the tax base. However, the committee left the tax on fishing equipment at 10 percent since the receipts from this source are not available for general expenditures. The committee bill reduces the tax on photographic apparatus from 25 to 15 percent of the manufacturers' price. No change is made in the 15-percent tax now applying to film or in the items included in the bases of

either of these two taxes. The House bill decreases the 25-percent tax on photographic apparatus to 20 percent and increases the 15-percent tax on film to 20 percent. The committee did not accept the provisions of the House bill which revises the bases of the taxes on photographic apparatus and film by eliminating the so-called business-cost items.

The committee rejected a House provision which would provide for a floor-stock refund in the case of photoflash bulbs which would be necessary under the House bill which decreased the tax on photoflash bulbs from 25 percent to zero but which the Finance Committee decreased to 15 percent. The House provision repealing the tax on electrical energy was adopted by the Finance Committee. In the case of fountain pens, ball-point pens, and mechanical pencils, which were made taxable at 20 percent of the manufacturer's price, the committee decreased the rate to 10 percent. The committee changed the House provision imposing a 20 percent tax of the retail price on cigarette, cigar, and pipe lighters to a 10 percent tax of the manufacturer's price.

D. Retail excises: On toilet preparations the committee adopted the two changes made by the House bill which would (1) exempt from this tax baby oils, powders, lotions, and other toilet articles unless they are advertised or sold as being usable by adults and (2) exempt toilet preparations purchased by barber shops and beauty parlors for use in these establishments.

E. Transportation and communication excises: The Finance Committee reduces the rate of tax on domestic telegraph, cable, or radio messages to 15 percent instead of to the 20 percent provided by the House bill. The committee added a provision which provides that the 25-percent tax on long-distance telephone calls is not to apply to calls from combat zones initiated by members of the Armed Forces. The House provision exempting certain fishing trips from the tax on transportation of persons was adopted by the committee which also added a provision which excludes from the application of the tax amounts paid in the case of certain types

of transportation by vessels. Under the tax on transportation of property, the committee wrote in a provision which exempts from the 3 percent tax charges made for the use of motor vehicles by contractors for the movement of earth, rock, or other excavated material from a construction project to an adjacent area. The committee did not, however, accept the change made in the House bill which extends the 3 percent tax on transportation of property to the "fair charge" where shippers are transporting their own oil and in other cases where the amount paid for the transportation of oil is less than a fair charge.

F. Excises on amusements or recreation: Both the Finance Committee bill and the House bill provide exemptions from the admissions tax where the proceeds inure to certain types of organizations. The Finance Committee tightened this provision, however, and made it more restrictive in order to remove administrative problems and also to limit the benefit of the exemption to activities which it appears appropriate for the Government to encourage. Admissions to moving picture exhibitions were not exempted under the committee's bill. Another change in the tax on admissions, made in the House bill, was approved by the committee which exempts free admissions from tax and based the tax on amounts actually paid where persons are admitted at reduced rates. Both the Finance Committee bill and the House bill contain a provision which provides that the 20-percent tax on cabarets shall not apply in the case of ballrooms and dancing halls merely because it is possible to purchase incidental refreshments, services or merchandise in such places. The Finance Committee rejected the provision in the House bill which would raise the special occupational tax on bowling alleys, billiard or pool tables from \$20 to \$25 per year per alley or table.

G. Excises on gambling. The Finance Committee's bill adopts the provisions of the Hill bill which imposes two new taxes with respect to gambling. It provides a 10 percent excise tax on the gross amount of wagers of certain types, principally those placed with bookmakers and lottery operators, and a \$50 per year occupational tax both upon persons engaged in accepting wagers of these types and upon persons who receive such wagers for those individuals. These taxes will not apply to State-licensed pari-mutuel betting, social and friendly betting, or games such as cards, dice, roulette, bingo, or keno. Your committee believes that the continuance of the present immunity of gambling from taxation is inconsistent with the present need for increased revenue, especially at a time when the American people are being called upon to bear many new or additional tax burdens. It should be emphasized that payment of the gambling taxes provided by this bill will not serve to exempt any person from any penalties under either State or Federal law with respect to engaging in the taxed activities.

H. Floor stocks and refunds. Under both the House bill and the Finance Committee bill floor stock taxes are imposed with respect to the increases in the tax on distilled spirits, beer, wine, and cigarettes. In the case of gasoline a floor stock tax is also imposed but only with respect to stocks of gasoline held by retailers other than at their retail establishments. The rates of tax under these floor stock taxes are the same as the increases in tax provided for these items. Because the Finance Committee fixed December 31, 1953, as the termination date for the increase in excises, the committee also added a provision for floor stock refunds at the time of the termination. The refunds are to be limited to the items on which floor stock taxes are imposed at the effective date of the increases; that is, they are limited to distilled spirits, beer, wine, and cigarettes and to stocks of gasoline held by retailers at other than their retail estab-

lishments. The refunds are to be granted only with respect to the increases imposed by this bill, and only if the owner of the inventories can show that for 3 months after the reduction date the prices charged for the items reflect the tax decreases made.

EXCESS-PROFITS TAX

In connection with the excess-profits tax law, passed in January of this year, it was our purpose to reexamine this act at an early date as possible to ascertain whether the provisions of the act were equitable in their operation and effect. It is too early to make a complete survey of the excess profits tax since most corporations have not as yet filed their completed excess-profits-tax returns. However, our committee did hold hearings on this tax and it developed that there were many cases of inequity and hardship. It was impossible to take care of all the hardship cases in this bill, but our committee bill does provide relief for many of the most pressing cases. Among those being granted relief under the bill are those who started business after the base period and those who purchased the assets of an already existing business. I am submitting for the RECORD a short analysis of the excess-profits-tax provisions of the bill.

Mr. GEORGE. Mr. President, I call attention merely to one change in substance made by the committee bill which does not appear in the House bill. The Finance Committee adopted the House provision increasing the tax on gasoline from 1½ cents to 2 cents per gallon, but rejected the House provision which would tax Diesel fuel for Diesel-powered highway vehicles; the Finance Committee accepted the House provision increasing the tax on passenger cars and motorcycles from 7 to 10 percent of the manufacturers' price, but removed the tax on house trailers.

I pause at this point, Mr. President, to say that the tax on Diesel fuel oil used in vehicles on the highway, as provided in the House bill, was eliminated very largely because of the difficulties in administration, which difficulties were brought to the attention of your committee by the Treasury officials themselves; and that the House trailer tax was eliminated from the manufacturers' sales tax on motorcycles and gas-driven vehicles on the highways largely because of the urgent need now for the use of the trailer in renewed war activities and defense activities for residence purposes. The purpose of the committee in eliminating this tax is to be understood as applying only to those trailers which are used for housing purposes by human beings.

Mr. President, the new tax which the House included is a tax on gambling. The committee's bill adopts the provisions of the House bill without change. It provides a 10 percent excise tax on the gross amount of wagers of certain types, principally those placed with bookmakers and lottery operators; and a \$50-a-year occupational tax both upon persons engaged in accepting wagers of these types and upon persons who receive such wagers for those individuals. These taxes will not apply to State-licensed pari-mutuel betting, social and friendly betting, or games such as cards, dice, roulette, bingo, or keno. The committee believes that the continuance of the present immunity of gambling from taxation is inconsistent with the urgent

need for increased revenue, especially at a time when the American people are being called upon to bear many new or additional tax burdens. It should be emphasized that payment of the gambling taxes provided by this bill will not serve to exempt any person from any penalties provided under either State or Federal law with respect to engaging in the taxed activities. It is purely a revenue measure, and is not intended to have any effect beyond its productivity as a revenue provision.

Mr. President, the committee also considered the excess profits tax provisions of this bill. That is to say, the committee considered some of the more pressing cases and examples submitted to it in the course of the hearings. The committee was not, of course, able in the time available to it to go exhaustively into the excess profits tax provisions, but there are various provisions included in the bill, and without reading them, the hour being late, I ask permission to have the analysis thereof printed in the RECORD at this point as a part of my remarks, so that it will be readily available to the Senate tomorrow.

There being no objection, the analysis was ordered to be printed in the RECORD, as follows:

EXCESS PROFITS TAX PROVISIONS OF THE BILL

Section 501 of the bill provides new corporations with a special excess profits tax ceiling rate of 5 percent for the first and second years in business, 8 percent for the third year in business, 11 percent for the fourth year in business, and 14 percent for the fifth year in business. For subsequent years the regular 17-percent ceiling rate applies. To prevent abuse of this special ceiling rate it is restricted to completely new corporations which have not taken over the property of older going businesses and which are not set up by persons who are already operating old corporations engaged in the same business.

Section 502 of the bill exempts from excess profits tax the income which a company receives from an affiliated foreign corporation in payment for technical, engineering, or scientific assistance. Income of this type is also excluded in computing base period earnings.

Section 503 of the bill provides that fiscal year corporations whose fiscal years end after the first quarter of the year may compute their excess profits earnings credit on the basis of 48 months ending with March 31, 1950, instead of being required to use the four calendar years 1946-49.

Under the present law a corporation which commenced business during the base period is not entitled to use the growth alternative in computing its earnings credit. Section 504 of the bill permits new corporations which commenced business during the base period to use the growth alternative if they meet its eligibility requirements. Since the principal eligibility requirement under the growth alternative is to show that a corporation's payroll in the last half of the base period was 130 percent of payroll in the first half or that gross receipts in the second half were 150 percent of gross receipts in the first half, the effect of this provision of the bill is to make it very easy for most corporations formed during the base period to qualify for the growth alternative. The growth alternative permits a corporation to base its earnings credit on its 1949 income or the average of its 1948 and 1949 income or half of its 1949 income plus 40 percent of its 1950 income.

Section 505 of the bill amends the growth alternative provisions to correct a situation

under which one method of computing the growth alternative credit was available to a corporation if it met one set of eligibility requirements but not available if the corporation met both that set of eligibility requirements and also met another set of eligibility requirements.

Section 506 of the bill provides that, in the case of banks, the offsetting of additional capital by increased investment in inadmissible assets shall not exceed the ratio of the additional inadmissible assets to additional total assets. The bill applies this principle to the computation of both capital additions during the tax period and capital additions during the base period.

Section 507 of the bill provides corporations using the earnings credit with a credit for capital additions where they decrease their investment in inadmissible assets and reinvest these amounts in tangible operating assets such as plant and equipment and tangible inventory items.

Section 508 of the bill permits municipal bond dealers to treat their tax exempt bonds as being admissible assets if the dealers elect to pay the excess-profits tax on the interest they receive from these tax exempt bonds.

Section 509 of the bill provides that where, after eliminating the poorest year in the base period, the income of the taxpayer's third best base period year is less than 35 percent of the average income in his two best years, the taxpayer may substitute for the low year the industry rate of return on his assets in that year. However, the substitute income figure cannot be greater than the taxpayer's average income in his two best base period years.

Section 510 of the bill amends the definition of total assets, which is used in applying the industry rates of return under the various relief sections, so as to exclude an amount equal to any indebtedness owed to a parent corporation where the indebtedness does not meet the definition of borrowed capital.

Section 511 of the bill permits a corporation to qualify for relief under the change in products relief section where the change in product does not occur until after the close of the taxpayer's base period if the taxpayer or its parent corporation was committed to construct facilities for the production of the new product before the end of the base period and construction of these facilities, in fact, actually commenced before July 1, 1950.

Corporations using the new corporation relief section, during any of their first 3 years which are excess-profits-tax years, compute their excess profits credit by applying their industry rate of return to their assets on hand at the end of the year. Under present law these corporations may include only 75 percent of their borrowed capital in their assets for purposes of this computation, while other corporations using the special relief sections compute their credits on the basis of their total assets. Section 512 of the bill permits new corporations computing their excess profits credit under section 445 for any of their first 3 years which are excess profits tax years to include 100 percent of their borrowed capital instead of 75 percent.

Section 513 of the bill makes the special regulated public utility credit of 6 percent of invested capital, after payment of ordinary income taxes, available to oil pipelines subject to the jurisdiction of State regulatory bodies as well as the oil pipelines which are subject to the jurisdiction of the Interstate Commerce Commission.

Section 514 of the bill permits a railroad lessor corporation, which leases its facilities to an operating railroad, to qualify for the regulated public utility credit where it files a consolidated return with the operating railroad which leases its facilities.

Under the present law metal and coal mines in operation during the base period

are entitled to an exemption from excess-profits tax on one-half of their excess output and metal and coal mines not in operation during the base period are entitled to an excess-profits-tax exemption on one-third of their income. Section 515 of the bill extends the same treatment to sulfur, potash, and chemical- and metallurgical-grade limestone deposits.

Section 516 of the bill permits a corporation to compute its excess-profits credit under the special-growth alternative which is based on 50 percent of 1948 income plus 40 percent of 1950 income where the corporation meets certain tests which show that it suffered during its base period due to a transition from war production to peacetime production and had an unusually high increase in its capacity during the base period.

Section 517 of the bill permits any corporation which suffered a catastrophe during the last 3 years of its base period to substitute earnings of the earlier base period years for the year of catastrophe.

Section 518 of the bill makes the growth alternative available to any newspaper publishing company which consolidated its mechanical, circulation, advertising, and accounting operations with those of another newspaper during the last half of the base period or the first half of 1950. This relief is available only if the corporation meets tests which prove that it carried out substantial economies in its operating expenses as a result of the consolidation.

Section 519 of the bill provides relief for corporations engaged in television broadcasting prior to 1951. If the company was engaged in both radio and television broadcasting during the base period it is entitled to determine an average base period rate of return based on its income from radio activities as a percentage of its radio broadcasting assets. Its excess-profits credit is determined by applying this radio rate of return to its total radio and television broadcasting assets at the end of its base period. As an alternative the company may apply the average base period rate of return of the radio and television broadcasting industry to its radio and television assets at the end of the base period. If the company was also engaged in some other type of business during the base period it may compute its ordinary earnings credit on this other business separately and combine this credit with the special radio-television broadcasting credit described above. A corporation which was in the radio broadcasting business during the base period and which acquired a television broadcasting station during 1950 may apply its average rate of return on its base period radio business (or the average industry rate) to the television broadcasting assets which it acquired. This amount is added to its ordinary base period earnings credit.

Section 520 of the bill provides rules under which a corporation which purchases the assets of another corporation or of a partnership in a taxable exchange may utilize the base period earnings experience of the old corporation or partnership in computing its ordinary earnings credit. This provision is limited to purchases before December 1, 1950, and it is limited to cases where the old corporation or partnership is liquidated.

In general, the excess-profits-tax amendments in the bill are made effective from June 30, 1950, which is the effective date of the 1950 Excess Profits Tax Act.

Mr. GEORGE. The bill also makes some changes in the income and estate tax provisions, though not extensive changes. Some of these provisions were intended to plug loopholes, while others provided for remedial relief. These important provisions, designed to produce additional revenue, are those relating to farm cooperatives, building and loan

associations, and mutual savings banks. These provisions, which were not in the House bill, would bring in additional revenue of some \$150,000,000, as estimated. With the permission of the Senate I shall not read the provisions which relate to changes made in the income and estate tax provisions, but I call attention to what the committee is recommending with reference to cooperatives and other forms of corporate organizations.

Under existing law farmers' marketing and purchasing cooperatives are exempt from all income tax if they comply with the provisions of section 101 (12) of the Internal Revenue Code. Under that section they can retain profit margins in unallocated reserves which are taxed neither to the patron nor to the cooperative. They can retain such surplus or reserves as they deem necessary, consistent, of course, with sound regulations imposed upon them by the Commissioner of Internal Revenue. Since such unallocated reserves are not taxed to the patron, the committee believed that they should be taxed to the cooperative. Accordingly, section 101 (12) of the code should be amended to require these unallocated reserves to be subject to the regular corporation tax. There is no limitation placed upon the amount of the reserves, but it is obvious that a 52 percent tax, or, indeed, a 40 percent tax, or even a smaller tax, is a sufficient ceiling upon such reserves. Certainly no cooperative could afford to set aside reserves in the face of a maximum corporate tax of 52 percent upon all sums covered in the reserves.

The same requirement to which I have referred is made in the case of taxable cooperatives which are subject to the corporation income tax on all income which is not allocated or credited to the accounts of the patrons. In the case of both taxable and nontaxable cooperatives, patronage dividends not paid in cash or merchandise must, in order to be deductible, be paid through revolving-fund certificates or other form of certificate or letter of advice which discloses to the patron the dollar amount of the dividend refunds or rebate which he must take up in his own individual return. In addition, the committee bill requires the cooperative to make a correct return showing the name and address of each patron to whom it has made allocations amounting to \$100 or more during the calendar year, and the amount of such allocations to each patron.

The Secretary of the Treasury may, under regulations—also under this bill—require reporting of allocations of less than \$100 to each patron.

The committee also instructed the staff of the Joint Committee on Internal Revenue Taxation and the Treasury staff to study and report by April 1, 1952, the possibility of withholding unallocated reserves, and on the various methods used in allocating reserves, and the form and character of the certificates issued.

The bill also contains a provision requiring withholding on patronage dividends if withholding should be applied to dividends generally. It did not re-

quire that in the first instance, because under the committee bill the House provision for a 20-percent withholding on dividends, certain interest, and royalties, was eliminated. While the Senate committee is opposed, as I have just indicated, to any withholding on dividends, interest, and royalties, and while it eliminated that provision in the House bill requiring such withholding, it was felt that if withholding were to be applied to dividends generally, it should also be applied to patronage refunds.

Savings and loan associations under the present law, section 101 (4) of the code, are exempt from income-tax payments. In addition, Federal savings and loan associations chartered by the Federal Government, are exempt from income tax under the Home Owners' Loan Act of 1933 and are covered by subsection (15) of section 101 of the code which provides for the exemption of United States instrumentalities. The grounds on which your committee's bill taxes savings and loan associations on their retained earnings, after making a reasonable allowance for additions to reserves for bad debts, are the same as those on which mutual savings banks are taxed under the bill. Section 313 of your committee's bill taxes savings and loan associations including Massachusetts cooperative banks and those chartered by the Federal Savings and Loan Association as ordinary corporations but specifically allows the deduction for dividends paid to depositors and the amounts placed in bad-debt reserves on a similar basis as for mutual savings banks. This provision also is effective with respect to taxable years beginning after December 31, 1951.

Mutual savings banks, under section 102 (2) of the code, are exempt from the payment of any income tax. This exemption, in effect, has relieved such financial institutions from tax on amounts retained as undivided profits and additions to surplus. Section 313 of your committee's bill, relative to the tax treatment of mutual savings banks, would permit such banks to deduct, in arriving at taxable income, amounts paid, credited, or allocated to the accounts of depositors, and as in the case of other banks, permit them to deduct amounts credited to a reserve for losses on loans. The addition to the reserve for losses on loans is to be determined with due regard to the taxpayer's surplus or loss reserves at the close of December 31, 1951. In addition, mutual savings banks are to be allowed as a deduction from gross income any amount currently paid to the United States or to any Federal Government instrumentality exempt from Federal income taxes, in repayment of indebtedness incurred prior to September 1, 1951. Many of these institutions borrowed money through the Reconstruction Finance Corporation or other Federal agencies. Some have not repaid their loans. Under the committee's bill they would be allowed to do so out of their gross income and before the payment of any tax on it. On the remaining income, mutual savings banks are to be taxed in the same manner as ordi-

nary corporations. This provision is effective with respect to taxable years beginning after December 31, 1951.

SALE OF A RESIDENCE

A remedial provision, which the House adopted, and with which we agreed was one relating to situations where a taxpayer sells his residence and reinvests the money from the sale in a new residence. Under this provision, where the sale of a taxpayer's principal residence is followed within a period of 1 year by the purchase of another residence, or where another residence is purchased within 1 year prior to the sale of the taxpayer's principal residence, no gain from the sale is to be recognized except to the extent that the selling price exceeds the price of the new residence. The cost basis of the new residence is to be adjusted by the amount of the gain not recognized upon the sale of the old residence. The same provision is in the House bill. Your committee has added a provision to cover a situation to allow the benefits of the section to cases where construction of a new house is begun within one year after the sale of the old house, and the new house is used as the taxpayer's principal residence within 18 months after the sale of the old residence. This gives the taxpayer an additional 6 months in which to move into a new home which is being built, for the obvious reason that it may not be possible, during a time when certain materials are scarce, to complete the construction of the house within the year of the sale.

UNRELATED ACTIVITIES OF STATE UNIVERSITIES

Under the Revenue Act of 1950, the regular corporate tax was applied to the unrelated activities of charitable and educational institutions. However, this provision did not apply to the unrelated business income of State universities and other schools of governmental units. The attention of the committee has been called to the fact that some State schools are engaged in unrelated activities which would be taxed if they were not State universities. Accordingly, your committee's bill extends the present tax to the unrelated business income of universities and colleges of States and other governmental units.

LIFE-INSURANCE COMPANIES

For 1 year only the present tax formula applied to life-insurance companies has been continued in the bill. The new stopgap plan, which the committee is recommending, however, will produce some \$58,000,000 more than the formula now applied to life-insurance companies.

Under this plan, life-insurance companies are taxed at regular corporate rates on 3¾ percent of the first \$200,000 of net-investment income and 6½ percent of that part of the net-investment income in excess of \$200,000. A special credit is allowed for companies which are not earning their interest requirements. This plan has the endorsement of practically every life-insurance company. As I stated, it will bring in additional revenue of approximately \$58,000,000.

Your committee was not satisfied with this plan as a permanent basis for tax-

ing life-insurance companies and requested the Treasury and joint committee staffs to make further studies on the matter.

I ask unanimous consent that a table showing the various items granted depletion allowance in the Senate committee's bill and the House bill be printed in the RECORD as part of my remarks.

There being no objection, the table was ordered to be printed in the RECORD, as follows:

Item	Rate in House bill	Rate in committee bill
	Percent	Percent
Sand.....	5	5
Gravel.....	5	5
Granite.....	5	5
Marble.....	5	5
Slate.....	5	5
Stone.....	5	5
Brick clay and tile clay.....	5	5
Shale.....	5	5
Clam shell.....	5	5
Oyster shell.....	5	5
Borax.....	15	10
Fuller's earth.....	15	10
Tripoli.....	15	10
Refractory and fire clay.....	15	10
Quartzite.....	15	10
Perlite.....	15	10
Diatomaceous earth.....	15	10
Metallurgical and chemical grade limestone.....	15	10
Wallastonite.....	(1)	10
Asbestos.....	(1 2)	10
Aplite.....	(1)	15
Salt and salt wells containing brines of calcium chloride, magnesium chloride, sodium chloride, potassium chloride, or bromine.....	(1)	5
Magnesium compounds (magnesite, dolomite, and brucite).....	(1)	10
Coal.....	10	10
Therardite.....	15	15

¹ Not included.

² Under the present law asbestos receives a 5-percent depletion allowance. Your committee's bill increased this to 10 percent.

³ Under the present law coal receives a 5-percent depletion allowance. This was increased to 10 percent by the House bill and agreed to by the committee.

⁴ The nardite under the present law receives a 15-percent depletion allowance. It is shown in the bill as a clarification, the 15-percent allowance applies whether obtained from brine or not.

Mr. GEORGE. Mr. President, the committee bill provides that where land is sold together with the unharvested crop or fruit upon such land, the gain resulting from such sale shall be treated as a capital gain. Under existing law, there is uncertainty and litigation as to whether the gain from the sale of the crop must be determined separately and treated as ordinary income or whether the entire gain is a capital gain. It is provided in the bill that in such cases no deduction shall be allowed with respect to the expenses attributable to the production of the unharvested crop but that such expenses shall be included in the cost of the crop in determining the amount of the gain, that is, in arriving at a proper base upon which to tax a capital gain.

The other provisions of the bill are fully explained and set forth in the report.

Mr. President, I should like to submit a unanimous-consent request, as follows:

Ordered, by unanimous consent, that the committee amendments to the pending bill H. R. 4473, the Revenue Act of 1951, be agreed to en bloc; *Provided, however*, That such action with respect to any specific amendment shall, upon the request of a Senator, be

deemed to be rescinded, and the consideration of such amendment shall then be proceeded with in accordance with the rules of the Senate.

Mr. HUMPHREY. Mr. President, may I get one point clear? Will the Senator yield?

Mr. GEORGE. Yes.

Mr. HUMPHREY. Does it mean that any portion of the bill which has been amended by the committee may be discussed completely on the floor of the Senate by the offering of another amendment to the committee amendment?

Mr. GEORGE. Yes.

Mr. HUMPHREY. There is no doubt about it.

Mr. GEORGE. The order may be rescinded without any motion, merely upon the request of any Senator, and then the proceeding is de novo, as if it were the first time the amendment had been offered.

Mr. HUMPHREY. I thank the Senator from Georgia.

Mr. McFARLAND. Under the unanimous-consent agreement an amendment would be treated as though it were an amendment to the original bill.

Mr. GEORGE. Exactly. Of course, the part of the bill which the committee has not amended is subject to amendment in the same way that the portion which the committee has amended is subject to amendment.

Mr. O'MAHONEY. Mr. President, will the Senator yield?

Mr. GEORGE. Yes.

Mr. O'MAHONEY. Is it my understanding, therefore, that all the committee amendments would stand approved if the unanimous-consent agreement is entered, unless or until some Member of the Senate rises to question any such amendment, and then the amendment may be considered as though it were being presented de novo?

Mr. GEORGE. Exactly. Upon the request of any Senator the order shall be deemed to be rescinded, "and the consideration of such amendment shall be proceeded with in accordance with the rules of the Senate." That is provided in the unanimous consent request. Such amendment may be rejected or amended, as could be done in the first instance.

Mr. BUTLER of Maryland. Mr. President, I desire to propound a parliamentary inquiry, if the Senator from Georgia will yield for that purpose.

Mr. GEORGE. I am glad to yield.

The PRESIDING OFFICER. The Senator will state his parliamentary inquiry.

Mr. BUTLER of Maryland. If an amendment is offered to strike out an entire section of the bill, and if that amendment is rejected, would that section of the bill be open to amendment, or would the offering of an amendment to it be foreclosed?

The PRESIDING OFFICER. It would be open to amendment.

Mr. GEORGE. Oh, yes; it would be open to amendment. There is no disposition to do otherwise in connection with a voluminous bill of this kind. The entire purpose is to get the bill before

the Senate and to permit any Senator to deal with it just as he wishes.

The PRESIDING OFFICER. Is there objection to the unanimous-consent request of the Senator from Georgia? Without objection, the request is agreed to.

The amendments agreed to en bloc are as follows:

On page 1, after line 5, to strike out:

"TABLE OF CONTENTS"

"TITLE I—INCREASE IN INCOME TAX RATES"

"Part I—Individual income taxes"

"Sec. 101. Defense tax.

"(a) Increase in rate of tax.

"(b) Amendment of section 12 (b).

"(c) Limitation on tax.

"(d) Technical amendments.

"Sec. 102. Individuals with adjusted gross income of less than \$5,000.

"Sec. 103. Computation of tax in case of certain joint returns.

"Sec. 104. Effective date of part I.

"Part II—Corporation income taxes"

"Sec. 121. Increase in rate of corporation normal tax.

"(a) Amendment of section 13.

"(b) Maximum tax.

"(c) Mutual insurance companies other than life or marine.

"(d) Regulated investment companies.

"(e) Business income of certain section 101 organizations.

"(f) Technical amendments.

"Sec. 122. Credits of corporations.

"(a) Dividends received credit.

"(b) Credit for dividends paid on certain preferred stock.

"(c) Western Hemisphere trade corporations.

"Sec. 123. Surtax exemptions and certain credits of related corporations.

"(a) Limitation on surtax exemption in the case of related corporations.

"(b) Insurance companies.

"(c) Minimum excess-profits credit.

"Sec. 124. Computation of alternative capital-gains tax.

"(a) Alternative tax.

"(b) Effective date.

"Sec. 125. Effective date.

"Part III—Fiscal-year taxpayers"

"Sec. 131. Fiscal-year taxpayers.

"(a) Amendment of section 108.

"(b) Computation of excess-profits tax.

"(c) Technical amendments.

"TITLE II—WITHHOLDING TAX AT SOURCE"

"Part I—Withholding of tax at source on dividends, interest, and royalties"

"Sec. 201. Collection of income tax at source on dividends, interest, and royalties.

"Sec. 202. Credit for tax withheld.

"Sec. 203. Credits in case of organizations exempt from tax.

"Sec. 204. Technical amendments.

"(a) Tax computed by collector.

"(b) Requirement of declaration of estimated tax.

"(c) Credit under section 143.

"(d) Credit under section 144.

"(e) Information at source.

"(f) Information by corporations.

"(g) Clerical amendments.

"(h) Amount of credit considered as payment.

"(i) Special period of limitations for small refunds on tax withheld at source.

"(j) Presumptions as to date of payment.

"(k) Interest on overpayments.

"(l) Definition of withholding agent.

"(m) Effective date.

"Part II—Increase in withholding of tax at source on wages"

"Sec. 221. Percentage method of withholding.

"Sec. 222. Wage bracket withholding.

"Sec. 223. Additional withholding of tax on wages upon agreement by employer and employee.

"Sec. 224. Effective date.

"TITLE III—MISCELLANEOUS INCOME TAX AMENDMENTS"

"Sec. 301. Tax treatment in case of head of household.

"(a) Surtax in case of head of household.

"(b) Effective date.

"Sec. 302. Expenditures in the development of mines.

"(a) Deduction of expenditures.

"(b) Adjusted basis for determining gain or loss upon sale or exchange.

"(c) Technical amendment.

"(d) Effective date.

"Sec. 303. Gain from sale or exchange of taxpayer's residence.

"(a) Nonrecognition of gain in certain cases.

"(b) Technical amendments.

"(c) Effective date.

"Sec. 304. Percentage depletion.

"(a) Allowance of percentage depletion.

"(b) Technical amendment.

"(c) Effective date.

"Sec. 305. Capital gains and losses.

"(a) Treatment of long-term capital gains and losses.

"(b) Alternative tax.

"(c) Technical amendments.

"(d) Effective date.

"Sec. 306. Sales of livestock.

"Sec. 307. Tax treatment of coal royalties.

"(a) Definition of property used in the trade or business.

"(b) Gain or loss upon certain disposals of timber or coal.

"(c) Clerical amendment.

"(d) Effective date.

"Sec. 308. Collapsible corporations.

"(a) Definitions with respect to collapsible corporations.

"(b) Limitations on application of section 117 (m).

"(c) Effective date.

"Sec. 309. Dealers in securities—capital gains and ordinary losses.

"Sec. 310. Treatment of gain on sales of certain property between spouses and between an individual and a controlled corporation.

"(a) Disallowance of capital gain treatment.

"(b) Effective date.

"Sec. 311. Life insurance companies.

"(a) Reserve and other policy liability credit for 1951.

"(b) Effective date.

"Sec. 312. Tax treatment of certain investment companies.

"(a) Inclusion of certain registered management companies in the definition of regulated investment company.

"(b) Technical amendment.

"(c) Effective date.

"Sec. 313. Family partnerships.

"(a) Definition of partner.

"(b) Allocation of partnership income.

"(c) Effective date.

"TITLE IV—EXCISE TAXES"

"Part I—Tax on admissions and cabarets"

"Sec. 401. Removal of tax on free admissions.

"Sec. 402. Exemptions from admissions tax.

"(a) Reinstatement of prewar exemptions.

"(b) Amendment of section 1701 (a).

"(c) Admissions to municipal swimming pools, etc.

- "Sec. 403. Effective date of amendments relating to admissions.
- "Sec. 404. Tax on cabarets, roof gardens, etc.
 "(a) Ballrooms and dance halls.
 "(b) Effective date.
"Part II—Tax on cigarettes"
- "Sec. 421. Tax on cigarettes.
 "(a) Increase in rate.
 "(b) Effective date.
- "Sec. 422. Floor stocks tax on cigarettes.
"Part III—Retailers' excise taxes"
- "Sec. 431. Tax on lighters.
- "Sec. 432. Retailers' excise tax on toilet preparations.
 "(a) Baby oils, etc.
 "(b) Sales to barber shops, etc.
- "Sec. 433. Effective date of part III.
"Part IV—Diesel fuel"
- "Sec. 441. Diesel fuel used in highway vehicles.
 "(a) Imposition of tax.
 "(b) Effective date.
"Part V—Liquor"
- "Sec. 451. Increase in tax on distilled spirits from \$9 to \$10.50 per gallon.
 "(a) Distilled spirits generally.
 "(b) Imported perfumes containing distilled spirits.
 "(c) Floor stocks tax.
- "Sec. 452. Wines.
 "(a) Increase in rate of tax.
 "(b) Floor stocks.
- "Sec. 453. Fermented malt liquor.
 "(a) Increase in tax on fermented malt liquors from \$8 to \$9 per barrel.
 "(b) Floor stocks tax.
- "Sec. 454. Clerical amendment.
- "Sec. 455. Effective date of part V.
"Part VI—Occupational taxes"
- "Sec. 461. Dealers in liquors.
 "(a) Wholesale dealers in liquors.
 "(b) Retail dealers in liquors.
 "(c) Wholesale dealers in malt liquors.
- "Sec. 462. Drawback in the case of distilled spirits used in the manufacture of certain nonbeverage products.
 "(a) Drawback.
 "(b) Effective date.
 "(c) Technical amendment.
- "Sec. 463. Tax on coin operated gaming devices.
- "Sec. 464. Tax on bowling alleys and billiard and pool tables.
 "(a) Increase in rate.
 "(b) Clerical amendment.
- "Sec. 465. Effective date of part VI.
"Part VII—Wagering"
- "Sec. 471. Wagering taxes.
 "(a) Imposition of taxes.
 "(b) Technical amendment.
- "Sec. 472. Effective date of part VII.
"Part VIII—Manufacturers' excise taxes"
- "Sec. 481. Automobiles, trucks, and parts or accessories.
 "(a) Increase in tax on trucks.
 "(b) Increase in tax on passenger automobiles and motorcycles.
 "(c) Increase in tax on parts or accessories.
 "(d) Rebuilt parts or accessories.
 "(e) Technical amendment.
 "(f) Parts or accessories for farm equipment.
 "(g) Effective date of subsection (f).
 "(h) Removal of tax on tires for toys, etc.
- "Sec. 482. Navigation receivers sold to the United States.
 "(a) Exemption on sales to United States of certain radio sets.
 "(b) Tax-free sales of radio parts.
 "(c) Refund in case of use of parts.
 "(d) Refund in case of resale to United States.
 "(e) Use by manufacturer of taxable parts.
 "(f) Effective dates.
- "Sec. 483. Repeal of tax on certain sporting goods; increase in tax on remaining sporting goods.
- "Sec. 484. Addition of certain items to the tax on electric, gas, and oil appliances; removal of tax on electric heating pads.
- "Sec. 485. Adjustments of tax rates on photographic apparatus and film; repeal of tax on certain items.
 "(a) Items subject to tax.
 "(b) Floor-stocks refunds on bulbs.
- "Sec. 486. Imposition of tax on mechanical pencils and fountain and ball-point pens.
- "Sec. 487. Repeal of tax on electrical energy.
 "(a) Repeal of tax.
 "(b) Effective date.
- "Sec. 488. Tax on gasoline.
 "(a) Increase in rate.
 "(b) Floor-stocks tax.
- "Sec. 489. Effective date of part VIII.
"Part IX—Miscellaneous excise-tax amendments"
- "Sec. 491. Reduction of tax on telegraph dispatches.
 "(a) Reduction of tax.
 "(b) Clerical amendment.
 "(c) Effective date.
 "(d) Amounts paid pursuant to bills rendered.
 "(e) Rate-reduction date.
- "Sec. 492. Exemption of fishing trips from tax on transportation.
 "(a) Exemption.
 "(b) Effective date.
- "Sec. 493. Transportation of oil by water.
 "(a) Imposition of tax.
 "(b) Technical amendment.
 "(c) Effective date.
- "Sec. 494. Articles from foreign-trade zones.
 "(a) Imported articles.
 "(b) Previously tax-paid articles.
"TITLE V—MISCELLANEOUS PROVISIONS AND AMENDMENTS"
- "Sec. 501. Exemption of certain organizations from income tax for prior taxable years.
- "Sec. 502. Excess-profits credit based on income.
 "(a) Percentage of average base period net income taken into account.
 "(b) Effective date.
- "Sec. 503. Estate and gift-tax treatment of United States bonds held by certain nonresident aliens.
 "(a) Estate tax.
 "(b) Gift tax.
- "Sec. 504. Reorganization Plan No. 26 of 1950.
 And in lieu thereof, to insert the following:
"TABLE OF CONTENTS"
"TITLE I—INCREASE IN INCOME TAX RATES"
"Part I—Individual income taxes"
- "Sec. 101. Increase in surtax for 1951, 1952, and 1953.
 "(a) Rates of surtax.
 "(b) Limitation on tax.
- "Sec. 102. Individuals with adjusted gross income of less than \$5,000.
- "Sec. 103. Inapplicability of certain penalties and additions to tax.
 "(a) Penalties for failure to file return.
 "(b) Additions to tax.
- "Sec. 104. Computation of tax in case of certain joint returns.
- "Sec. 105. Effective date of Part I.
"Part II—Corporation income taxes"
- "Sec. 121. Increase in rate of corporation normal tax and surtax.
 "(a) Increase in rate of corporation normal tax.
 "(b) Increase in rate of corporation surtax.
 "(c) Maximum tax.
 "(d) Mutual insurance companies other than life or marine.
- "(e) Regulated investment companies.
 "(f) Business income of certain section 101 organizations.
 "(g) Technical amendment.
- "Sec. 122. Credits of corporations.
 "(a) Dividends received credit.
 "(b) Credit for dividends paid on certain preferred stock.
 "(c) Western hemisphere trade corporations.
- "Sec. 123. Filing of corporation returns for taxable years ending after March 31, 1951 and before October 1, 1951.
- "Sec. 124. Effective date.
"Part III—Fiscal year taxpayers"
- "Sec. 131. Fiscal year taxpayers.
 "(a) Amendment of section 108.
 "(b) Computation of excess-profits tax.
 "(c) Technical amendments.
"TITLE II—WITHHOLDING OF TAX AT SOURCE"
- "Sec. 201. Percentage method of withholding.
- "Sec. 202. Wage bracket withholding.
- "Sec. 203. Additional withholding of tax on wages upon agreement by employer and employee.
- "Sec. 204. Effective date.
"TITLE III—MISCELLANEOUS INCOME TAX AMENDMENTS"
- "Sec. 301. Tax treatment in case of head of household.
 "(a) Surtax in case of head of household.
 "(b) Computation of tax by collector.
 "(c) Effective date.
- "Sec. 302. Payments to beneficiaries of deceased employees.
 "(a) Amendment of section 22 (b) (1).
 "(b) Effective date.
- "Sec. 303. Joint and survivor annuities.
 "(a) Amendment of section 22 (b) (2).
 "(b) Amendment of section 113 (a) (5).
 "(c) Effective dates.
- "Sec. 304. Income from discharge of indebtedness.
 "(a) Amendment of section 22 (b) (9).
 "(b) Amendment of section 22 (b) (10).
- "Sec. 305. Compensation of certain members of the Armed Forces.
 "(a) Amendment of section 22 (b) (13).
 "(b) Definition of service in combat zone.
 "(c) Withholding on wages.
 "(d) Effective dates.
- "Sec. 306. Involuntary liquidation and replacement of inventory.
 "(a) Amendment of section 22 (d) (6) (F) (iii).
 "(b) Effective date.
- "Sec. 307. Medical expenses.
 "(a) Amendment of section 23 (x).
 "(b) Effective date.
- "Sec. 308. Standard deduction.
 "(a) Method of election.
 "(b) Change of election.
 "(c) Effective date.
- "Sec. 309. Expenditures in the development of mines.
 "(a) Deduction of expenditures.
 "(b) Adjusted basis for determining gain or loss upon sale or exchange.
 "(c) Technical amendment.
 "(d) Effective date.
- "Sec. 310. Gross income of dependent of taxpayer.
 "(a) Increase in amount of gross income permitted.
 "(b) Effective date.
- "Sec. 311. Credit for dividends received.
 "(a) Dividends from foreign corporation engaged in trade or business in the United States.
 "(b) Technical amendment.
 "(c) Effective date.

- "Sec. 312. Joint return after filing separate return.
 "(a) Change of election.
 "(b) Effective date.
- "Sec. 313. Mutual savings banks, building and loan associations, cooperative banks.
 "(a) Mutual savings banks.
 "(b) Building and loan associations and cooperative banks.
 "(c) Federal savings and loan associations.
 "(d) Bad debt reserves.
 "(e) Dividends paid to depositors.
 "(f) Deduction for repayment to the United States of certain loans.
 "(g) Definition of bank.
 "(h) Definition of domestic building and loan association.
 "(i) Effective date.
- "Sec. 314. Income-tax treatment of exempt cooperatives.
 "(a) Amendment of section 101 (12).
 "(b) Technical amendments.
 "(c) Information returns.
 "(d) Withholding of tax at source.
 "(e) Effective date.
- "Sec. 315. Surtax on corporations improperly accumulating surplus.
 "(a) Long-term capital gains.
 "(b) Effective date.
- "Sec. 316. Election as to recognition of gain in certain corporate liquidations.
 "(a) Amendment of section 112 (b) (7).
 "(b) Basis of property.
 "(c) Effective date.
- "Sec. 317. Certain distributions of stock on reorganization.
 "(a) Distributions not in liquidation.
 "(b) Basis of stock.
 "(c) Effective date.
- "Sec. 318. Gain from sale or exchange of taxpayer's residence.
 "(a) Nonrecognition of gain in certain cases.
 "(b) Technical amendments.
 "(c) Effective date.
- "Sec. 319. Percentage depletion.
 "(a) Allowance of percentage depletion.
 "(b) Technical amendment.
 "(c) Effective date.
- "Sec. 320. Redemption of stock to pay death taxes.
 "(a) Amendment of section 115 (g) (3).
 "(b) Effective date.
- "Sec. 321. Earned income from sources without the United States.
 "(a) Exclusion from gross income.
 "(b) Withholding of tax on wages.
 "(c) Effective dates.
- "Sec. 322. Capital gains and losses.
 "(a) Treatment of long-term capital gains and losses.
 "(b) Alternative tax.
 "(c) Technical amendments.
 "(d) Effective date.
- "Sec. 323. Sale of land with unharvested crop.
 "(a) Treatment of gain or loss.
 "(b) Treatment of deductions.
 "(c) Effective date.
- "Sec. 324. Sales of livestock.
- "Sec. 325. Tax treatment of coal royalties.
 "(a) Definition of property used in the trade or business.
 "(b) Gain or loss upon certain disposals of timber or coal.
 "(c) Clerical amendment.
 "(d) Technical amendment.
 "(e) Conforming amendments.
 "(f) Effective date.
- "Sec. 326. Collapsible corporations.
 "(a) Definitions with respect to collapsible corporations.
 "(b) Limitations on application of section 117 (m).
 "(c) Effective date.
- "Sec. 327. Dealers in securities—capital gains and ordinary losses.
- "Sec. 328. Receipts of certain termination payments by employee.
 "(a) Taxability to employee as capital gain.
 "(b) Effective date.
- "Sec. 329. Net operating loss carry-over.
 "(a) Loss for taxable year beginning before 1948.
 "(b) Allowance of four-year loss carry-over from taxable years 1948-49.
 "(c) Effective date.
- "Sec. 330. Stock options.
 "(a) Option subject to stockholder approval.
 "(b) Effective date.
- "Sec. 331. Credit for taxes of foreign corporation.
 "(a) Foreign subsidiary of a domestic corporation.
 "(b) Foreign subsidiary of a foreign corporation.
 "(c) Clerical amendment.
- "Sec. 332. Information at source on payments of interest.
- "Sec. 333. Abatement of income tax for certain members of Armed Forces upon death.
- "Sec. 334. Employees' trusts.
 "(a) Amendment of section 165 (b).
 "(b) Effective date.
- "Sec. 335. Life insurance companies.
 "(a) Tax for 1951.
 "(b) Adjusted normal-tax net income for 1951.
 "(c) Technical amendments.
 "(d) Effective dates.
- "Sec. 336. Tax treatment of certain investment companies.
 "(a) Inclusion of certain registered management companies in the definition of regulated investment company.
 "(b) Technical amendment.
 "(c) Effective date.
- "Sec. 337. Exchanges and distributions in obedience to orders of Securities and Exchange Commission.
 "(a) Definition of system group.
 "(b) Effective date.
- "Sec. 338. Taxation of business income of State colleges and universities.
 "(a) Amendment of section 421 (b).
 "(b) Unrelated trade or business.
 "(c) Effective date.
- "Sec. 339. Family partnerships.
 "(a) Definition of partner.
 "(b) Allocation of partnership income.
 "(c) Effective date.
- "Sec. 340. War losses.
 "(a) Tax upon war loss recovery.
 "(b) Basis of recovered property.
 "(c) Credit for foreign taxes.
 "(d) Effective dates.
- "Sec. 341. Deduction of expenditures for mine exploration.
 "(a) Deduction of mine exploration expenditures.
 "(b) Adjusted basis for determining gain or loss upon sale or exchange.
 "(c) Effective date.
- "Sec. 342. Corporate liquidations.
 "(a) Treatment of gain.
 "(b) Effective date.
- "Sec. 343. Definition of employee.
 "(a) Amendment of section 3797 (a).
 "(b) Effective date.
- "TITLE IV—EXCISE TAXES
 "Part I—Tax on admissions and cabarets
 "Sec. 401. Removal of tax on free admissions.
 "Sec. 402. Exemptions from admissions tax.
 "(a) Reinstatement of prewar exemptions.
 "(b) Amendment of section 1701 (a) and (b).
 "(c) Admissions to municipal swimming pools, etc.
- "Sec. 403. Effective date of amendments relating to admissions.
- "Sec. 404. Tax on cabarets, roof gardens, etc.
 "(a) Ballrooms and dance halls.
 "(b) Effective date.
- "Part II—Tax on cigarettes
 "Sec. 421. Tax on cigarettes.
 "(a) Increase in rate.
 "(b) Effective date.
- "Sec. 422. Floor stocks tax and floor stocks refund on cigarettes.
- "Sec. 423. Reduction of tax on snuff and chewing tobacco.
 "(a) Reduction in rate.
 "(b) Effective date.
- "Part III—Retailers' excise taxes
 "Sec. 431. Retailers' excise tax on toilet preparations.
 "(a) Baby oils, etc.
 "(b) Sales to barber shops, etc.
- "Sec. 432. Effective date of Part III.
- "Part IV—Liquor
 "Sec. 441. Increase in tax on distilled spirits from \$9 to \$10.50 per gallon.
 "(a) Distilled spirits generally.
 "(b) Imported perfumes containing distilled spirits.
 "(c) Floor stock tax.
- "Sec. 442. Wines.
 "(a) Increase in rate of tax.
 "(b) Floor stocks.
- "Sec. 443. Fermented malt liquor.
 "(a) Increase in tax on fermented malt liquors from \$8 to \$9 per barrel.
 "(b) Floor stocks tax.
- "Sec. 444. Floor stocks refunds.
 "(a) Amendment of section 1656 (a).
 "(b) Amendment of section 1656 (b).
- "Sec. 445. Clerical amendment.
- "Sec. 446. Effective date of part IV.
- "Part V—Occupation taxes
 "Sec. 451. Dealers in liquors.
 "(a) Wholesale dealers in liquors.
 "(b) Retail dealers in liquors.
 "(c) Wholesale dealers in malt liquors.
- "Sec. 452. Drawback in the case of distilled spirits used in the manufacture of certain nonbeverage products.
 "(a) Drawback.
 "(b) Effective date.
- "Sec. 453. Tax on coin-operated gaming devices.
- "Sec. 454. Effective date of part V.
- "Part VI—Wagering
 "Sec. 461. Wagering taxes.
 "(a) Imposition of taxes.
 "(b) Technical amendment.
- "Sec. 462. Effective date of part VI.
- "Part VII—Manufacturers' excise taxes
 "Sec. 471. Automobiles, trucks, and parts or accessories.
 "(a) Increase in tax on trucks.
 "(b) Increase in tax on passenger automobiles and motorcycles.
 "(c) Increase in tax on parts of accessories.
 "(d) Rebuilt parts or accessories.
 "(e) Technical amendment.
 "(f) Parts or accessories for farm equipment.
 "(g) Effective date of subsection (f).
 "(h) Removal of tax on tires for toys, etc.
- "Sec. 472. Navigation receivers sold to the United States.
 "(a) Exemption on sales to United States of certain radio sets.
 "(b) Tax-free sales of radio parts.
 "(c) Refund in case of use of parts.
 "(d) Refund in case of resale to United States.
 "(e) Use by manufacturer of taxable parts.
 "(f) Effective dates.

"Sec. 473. Tax-free sales of refrigerator components to wholesalers for resale to manufacturers.

"Sec. 474. Sporting goods.

"Sec. 475. Electric, gas, and oil appliances.

"(a) Items subject to tax.

"(b) Determination of sale price.

"Sec. 476. Photographic apparatus.

"Sec. 477. Imposition of tax on mechanical pencils, fountain and ball point pens, and mechanical lighters for cigarettes, cigars, and pipes.

"Sec. 478. Repeal of tax on electrical energy.

"(a) Repeal of tax.

"(b) Effective date.

"Sec. 479. Tax on gasoline.

"(a) Increase in rate.

"(b) Floor stocks tax and refund.

"Sec. 480. Effective date of part VII.

"Part VIII—Miscellaneous excise tax amendments

"Sec. 481. Reduction of tax on telegraph dispatches.

"(a) Reduction of tax.

"(b) Effective date.

"(c) Amounts paid pursuant to bills rendered.

"(d) Rate reduction date.

"Sec. 482. Exemption of certain overseas telephone calls from the tax on telephone facilities.

"(a) Telephone calls from members of Armed Forces in combat zones.

"(b) Effective date.

"Sec. 483. Exemption of fishing trips from tax on transportation.

"(a) Exemption.

"(b) Effective date.

"Sec. 484. Tax on transportation of persons.

"(a) Exemption of certain foreign travel.

"(b) Effective date.

"Sec. 485. Transportation of material excavated in the course of construction work.

"(a) Amendment of section 3475.

"(b) Effective date.

"Sec. 486. Articles from foreign trade zones.

"(a) Imported articles.

"(b) Previously tax-paid articles.

"Sec. 487. Refunds on articles from foreign trade zones.

"(a) Imported articles.

"(b) Previously tax-paid articles.

"TITLE V—EXCESS PROFITS TAX

"Sec. 501. Maximum tax for new corporations.

"Sec. 502. Payments from foreign sources for technical assistance, etc.

"(a) Amendment of section 433 (a) (1).

"(b) Amendment of section 433 (b).

"Sec. 503. Average base period net income in case of certain fiscal year taxpayers.

"Sec. 504. Average base period net income—alternative based on growth in case of new corporations.

"(a) General rule.

"(b) Amendment of part II.

"Sec. 505. Average base period net income—alternative based on growth.

"Sec. 506. Adjustments for changes in inadmissible assets in case of banks.

"(a) Amendment of section 435 (g).

"(b) Amendment of section 438.

"(c) Amendment of section 435 (f).

"Sec. 507. Decrease in inadmissible assets.

"Sec. 508. Election with respect to certain inadmissible assets.

"(a) Amendment of section 440.

"(b) Amendment of section 433 (a) (1).

"(c) Amendment of section 433 (b).

"Sec. 509. Alternative average base period net income.

"(a) Amendment of section 442.

"(b) Technical amendments.

"Sec. 510. Definition of total assets for purposes of sections 442-446.

"Sec. 511. Average base period net income—change in products or services.

"Sec. 512. Average base period net income—new corporation.

"Sec. 513. Excess profits credit—regulated public utilities.

"Sec. 514. Consolidated returns of regulated public utilities.

"Sec. 515. Nontaxable income from certain mining properties.

"Sec. 516. Transition from war production and increase in peacetime capacity.

"(a) In general.

"(b) Technical amendments.

"Sec. 517. Base period catastrophe.

"Sec. 518. Consolidation of newspapers.

"Sec. 519. Television broadcasting companies.

"Sec. 520. Excess profits credit based on income in connection with certain taxable acquisitions.

"(a) General rule.

"(b) Technical amendments.

"Sec. 521. Effective date of title V.

"TITLE VI—MISCELLANEOUS PROVISIONS AND AMENDMENTS

"Sec. 601. Exemption of certain organizations from income tax for prior taxable years.

"Sec. 602. Foreign estate tax credit.

"(a) Credit against basic estate tax.

"(b) Credit against additional estate tax.

"(c) Revisionary or remainder interest.

"(d) Extension of period of limitations, etc., in case of recovery of taxes claimed as credit.

"(e) Effective date.

"Sec. 603. Estate and gift tax treatment of United States bonds held by certain nonresident aliens.

"(a) Estate tax.

"(b) Gift tax.

"Sec. 604. Estate tax exemption for works of art loaned by nonresident aliens.

"(a) Amendment of section 863 (c).

"(b) Effective date.

"Sec. 605. Exemption from additional estate tax of members of armed forces upon death.

"Sec. 606. Transfers conditioned upon survivorship.

"Sec. 607. Transfers with income reserved.

"Sec. 608. Transfers taking effect at death.

"Sec. 609. Revisionary interests in case of life insurance.

"Sec. 610. Income pursuant to award of Interstate Commerce Commission.

"Sec. 611. Credit in prior taxable years for dividends received on preferred stock of a public utility.

"Sec. 612. Consolidated returns—ineligible corporations.

"Sec. 613. Time for performing certain acts postponed in case of China Trade Act corporations.

"Sec. 614. Treaty obligations.

"Sec. 615. Reorganization Plan Numbered 26 of 1950."

The next amendment was, under the heading "Title I—Increase in income-tax rates—Part I—Individual income taxes," on page 16, after line 2, to strike out:

"SEC. 16. Defense tax.

"(a) Increase in rate of tax: Part I of subchapter B of chapter 1 is hereby amended by adding at the end thereof the following new section:

"SEC. 16. Defense tax.

"(a) Individuals calendar year 1951: In the case of taxable year beginning on January 1, 1951, and ending on December 31, 1951, the amount of the combined normal tax and surtax under sections 11 and 12, and the amount of the combined normal tax and surtax under section 421 (a) (2), shall be the amount of such combined tax computed

without regard to this section, increased by 4 percent.

"(b) Individuals taxable years beginning after August 31, 1951: In the case of taxable years beginning after August 31, 1951, the amount of the combined normal tax and surtax under sections 11 and 12, and the amount of the combined normal tax and surtax under section 421 (a) (2), shall be the amount of such combined tax computed without regard to this section, increased by 12½ percent.

"(c) Alternative capital-gains tax.—

"(1) Calendar year 1951: In computing an alternative tax under paragraph (1) or (2) of section 117 (c) for a taxable year beginning on January 1, 1951, and ending on December 31, 1951, the amount to be added to the partial tax under such paragraph shall be increased by 4 percent.

"(2) Taxable years beginning after August 31, 1951: In computing an alternative tax under paragraph (1) or (2) of section 117 (c) for a taxable year beginning after August 31, 1951, the amount to be added to the partial tax under such paragraph shall be increased by 12½ percent.

"(3) Taxable years beginning before September 1, 1951, and ending after August 31, 1951: In computing an alternative tax under paragraph (1) or (2) of section 117 (c) for a taxable year (other than one beginning on January 1, 1951, and ending on December 31, 1951) beginning before September 1, 1951, and ending after August 31, 1951, the amount to be added to the partial tax under such paragraph shall be increased by a percentage which bears the same ratio to 12½ percent as the number of months in such taxable year after August 31, 1951, bears to the total number of calendar months in such taxable year. For the purposes of this paragraph, a calendar month only part of which falls within a taxable year (A) shall be disregarded if less than 15 days of such month are included in such taxable year, and (B) shall be included as a calendar month within the taxable year if more than 14 days of such month fall within the taxable year."

"(b) Amendment of section 12 (b): Section 12 (b) (relating to rates of surtax) is hereby amended by striking out paragraph (2) and inserting in lieu thereof the following:

"In the case of a head of a household the tax imposed by this subsection shall not apply to any taxable year beginning after August 31, 1951. In the case of an individual whose surtax net income for the taxable year is over \$90,000, the tax imposed by this paragraph shall not apply if the defense tax provided in section 16 is applicable to such taxable year.

"(2) Surtax net income over \$90,000 calendar year 1951: In the case of a taxable year beginning on January 1, 1951, and ending on December 31, 1951, if the surtax net income of the individual is over \$90,000, there shall be levied, collected, and paid for such taxable year upon the surtax net income of such individual the surtax shown in the following table:

If the surtax net increase is:	The surtax shall be:
Over \$90,000 but not over \$100,000.	\$55,920 plus 83 percent of excess over \$90,000.
Over \$100,000 but not over \$150,000.	\$64,220 plus 84 percent of excess over \$100,000.
Over \$150,000 but not over \$200,000.	\$106,220 plus 85 percent of excess over \$150,000.
Over \$200,000 -----	\$148,720 plus 86 percent of excess over \$200,000.

"(3) Surtax net income over \$90,000—taxable years beginning after August 31, 1951: In the case of a taxable year beginning after August 31, 1951, to which the defense tax provided by section 16 is applicable, if the

surtax net income of the individual for the taxable year is over \$30,000, there shall be levied, collected, and paid for such taxable year upon the surtax net income of such individual a surtax of \$55,920 plus 81 percent of the excess over \$90,000.

"(c) Limitation on tax: Section 12 (f) (relating to limitation on tax) is hereby amended to read as follows:

"(f) Limitation on tax—

"(1) Taxable years to which defense tax does not apply: In the case of a taxable year beginning after September 30, 1950, other than a taxable year to which paragraph (2) or (3) is applicable, the combined normal tax and surtax shall in no event exceed 87 percent of the net income for the taxable year.

"(2) Calendar year 1951: In the case of a taxable year beginning on January 1, 1951,

and ending December 31, 1951, the combined normal tax and surtax, increased as provided in section 16, shall in no event exceed 88 percent of the net income for the taxable year.

"(3) Other taxable years to which defense tax applies: In the case of a taxable year beginning after August 31, 1951, to which the defense tax provided in section 16 is applicable, the combined normal tax and surtax, increased as provided in section 16, shall in no event exceed 90 percent of the net income for the taxable year.

"(d) Technical amendments—

"(1) Section 11 (a) (relating to normal tax on individuals) is hereby amended by adding at the end thereof the following new sentence: 'For percentage increase in the amount of tax for the calendar year 1951 and for taxable years beginning after August 31, 1951, see section 16.'

"(2) Section 12 (g) (cross references) is hereby amended by adding at the end thereof the following:

"(7) Defense tax: For percentage increase in the amount of tax for the calendar year 1951 and for taxable years beginning after August 31, 1951, see section 16.

"(8) Computation of tax for certain fiscal years: For computation of tax in the case of taxable years (other than the calendar year 1951) beginning before September 1, 1951, and ending after August 31, 1951, see section 108 (h).'

"Sec. 102. Individuals with adjusted gross income of less than \$5,000.

"Section 400 (relating to optional tax on individuals with adjusted gross incomes of less than \$5,000) is hereby amended by striking out the tables contained therein and inserting in lieu thereof the following:

"TABLE I.—Taxable year beginning Jan. 1, 1951, and ending Dec. 31, 1951

If adjusted gross income is—		And the number of exemptions is—				If adjusted gross income is—		And the number of exemptions is—									
At least	But less than	1	2	3	4 or more	At least	But less than	1	2		3		4	5	6	7	8 or more
									And if other than a joint return is filed	And if a joint return is filed	And if other than a joint return is filed	And if a joint return is filed					
The income and defense tax shall be—						The income and defense tax shall be—											
\$0	\$675	\$0	\$0	\$0	\$0	\$2,325	\$2,350	\$313	\$188	\$188	\$63	\$63	\$0	\$0	\$0	\$0	\$0
675	700	4	0	0	0	2,350	2,375	317	193	193	68	63	0	0	0	0	0
700	725	9	0	0	0	2,375	2,400	322	197	197	73	73	0	0	0	0	0
725	750	13	0	0	0	2,400	2,425	327	202	202	77	77	0	0	0	0	0
750	775	18	0	0	0	2,425	2,450	332	207	207	82	82	0	0	0	0	0
775	800	23	0	0	0	2,450	2,475	336	211	211	87	87	0	0	0	0	0
800	825	27	0	0	0	2,475	2,500	341	216	216	91	91	0	0	0	0	0
825	850	32	0	0	0	2,500	2,525	346	221	221	96	96	0	0	0	0	0
850	875	37	0	0	0	2,525	2,550	350	225	225	101	101	0	0	0	0	0
875	900	41	0	0	0	2,550	2,575	355	230	230	105	105	0	0	0	0	0
900	925	46	0	0	0	2,575	2,600	360	235	235	110	110	0	0	0	0	0
925	950	51	0	0	0	2,600	2,625	364	239	239	115	115	0	0	0	0	0
950	975	55	0	0	0	2,625	2,650	369	244	244	119	119	0	0	0	0	0
975	1,000	60	0	0	0	2,650	2,675	374	249	249	124	124	0	0	0	0	0
1,000	1,025	65	0	0	0	2,675	2,700	378	254	254	129	129	4	0	0	0	0
1,025	1,050	69	0	0	0	2,700	2,725	383	258	258	133	133	9	0	0	0	0
1,050	1,075	74	0	0	0	2,725	2,750	388	263	263	138	138	13	0	0	0	0
1,075	1,100	79	0	0	0	2,750	2,775	392	268	268	143	143	18	0	0	0	0
1,100	1,125	83	0	0	0	2,775	2,800	397	272	272	147	147	23	0	0	0	0
1,125	1,150	88	0	0	0	2,800	2,825	402	277	277	152	152	27	0	0	0	0
1,150	1,175	93	0	0	0	2,825	2,850	406	282	282	157	157	32	0	0	0	0
1,175	1,200	98	0	0	0	2,850	2,875	411	286	286	161	161	37	0	0	0	0
1,200	1,225	102	0	0	0	2,875	2,900	416	291	291	166	166	41	0	0	0	0
1,225	1,250	107	0	0	0	2,900	2,925	421	296	296	171	171	46	0	0	0	0
1,250	1,275	112	0	0	0	2,925	2,950	426	300	300	176	176	51	0	0	0	0
1,275	1,300	116	0	0	0	2,950	2,975	431	305	305	180	180	55	0	0	0	0
1,300	1,325	121	0	0	0	2,975	3,000	436	310	310	185	185	60	0	0	0	0
1,325	1,350	126	1	0	0	3,000	3,050	444	317	317	192	192	67	0	0	0	0
1,350	1,375	130	5	0	0	3,050	3,100	454	326	326	201	201	76	0	0	0	0
1,375	1,400	135	10	0	0	3,100	3,150	465	335	335	211	211	86	0	0	0	0
1,400	1,425	140	15	0	0	3,150	3,200	475	345	345	220	220	95	0	0	0	0
1,425	1,450	144	20	0	0	3,200	3,250	485	354	354	229	229	105	0	0	0	0
1,450	1,475	149	24	0	0	3,250	3,300	496	363	363	239	239	114	0	0	0	0
1,475	1,500	154	29	0	0	3,300	3,350	506	373	373	248	248	123	0	0	0	0
1,500	1,525	158	34	0	0	3,350	3,400	516	382	382	257	257	133	8	0	0	0
1,525	1,550	163	38	0	0	3,400	3,450	526	392	392	267	267	142	17	0	0	0
1,550	1,575	168	43	0	0	3,450	3,500	537	401	401	276	276	151	27	0	0	0
1,575	1,600	172	48	0	0	3,500	3,550	547	410	410	285	285	161	36	0	0	0
1,600	1,625	177	52	0	0	3,550	3,600	557	420	420	295	295	170	45	0	0	0
1,625	1,650	182	57	0	0	3,600	3,650	568	430	429	304	304	179	55	0	0	0
1,650	1,675	186	62	0	0	3,650	3,700	578	441	438	314	314	189	64	0	0	0
1,675	1,700	191	66	0	0	3,700	3,750	588	451	448	323	323	198	73	0	0	0
1,700	1,725	196	71	0	0	3,750	3,800	598	461	457	332	332	207	83	0	0	0
1,725	1,750	200	76	0	0	3,800	3,850	609	471	466	342	342	217	92	0	0	0
1,750	1,775	205	80	0	0	3,850	3,900	619	482	476	351	351	226	101	0	0	0
1,775	1,800	210	85	0	0	3,900	3,950	629	492	485	360	360	236	111	0	0	0
1,800	1,825	215	90	0	0	3,950	4,000	640	502	495	370	370	245	120	0	0	0
1,825	1,850	219	94	0	0	4,000	4,050	650	513	504	379	379	254	129	5	0	0
1,850	1,875	224	99	0	0	4,050	4,100	660	523	513	388	388	264	139	14	0	0
1,875	1,900	229	104	0	0	4,100	4,150	671	533	523	398	398	273	148	23	0	0
1,900	1,925	233	108	0	0	4,150	4,200	681	544	532	407	407	282	158	33	0	0
1,925	1,950	238	113	0	0	4,200	4,250	691	554	541	417	417	292	167	42	0	0
1,950	1,975	243	118	0	0	4,250	4,300	701	564	551	427	426	301	176	51	0	0
1,975	2,000	247	122	0	0	4,300	4,350	712	574	560	437	435	310	185	61	0	0
2,000	2,025	252	127	2	0	4,350	4,400	722	585	569	447	445	320	195	70	0	0
2,025	2,050	257	132	7	0	4,400	4,450	732	595	579	458	454	329	204	80	0	0
2,050	2,075	261	137	12	0	4,450	4,500	743	605	588	468	463	339	214	89	0	0
2,075	2,100	266	141	16	0	4,500	4,550	753	616	597	478	473	348	223	98	0	0
2,100	2,125	271	146	21	0	4,550	4,600	763	626	607	489	482	357	232	108	0	0
2,125	2,150	275	151	26	0	4,600	4,650	774	636	616	499	491	367	242	117	0	0
2,150	2,175	280	155	30	0	4,650	4,700	784	647	626	509	501	376	251	126	2	0
2,175	2,200	285	160	35	0	4,700	4,750	794	657	635	520	510	385	261	136	11	0
2,200	2,225	289	165	40	0	4,750	4,800	804	667	644	530	519	395	270	145	20	0
2,225	2,250	294	169	44	0	4,800	4,850	815	677	654	540	529	404	279	154	30	0
2,250	2,275	299	174	49	0	4,850	4,900	825	688	663	550	538	413	289	164	39	0
2,275	2,300	303	179	54	0	4,900	4,950	835	698	672	561	548	423	298	173	48	0
2,300	2,325	308	183	59	0	4,950	5,000	846	708	682	571	557	432	307	183	58	0

"TABLE II.—Taxable years beginning after Aug. 31, 1951

If adjusted gross income is—		And the number of exemptions is—				If adjusted gross income is—		And the number of exemptions is—													
								1		2		3			4	5	6	7	8 or more		
At least	But less than	1	2	3	4 or more	At least	But less than	And taxpayer is single or married filing separately	And taxpayer is head of household	And taxpayer is single or married filing separately	And taxpayer is head of household	And a joint return is filed	And taxpayer is single or married filing separately	And taxpayer is head of household						And a joint return is filed	
		The income and defense tax shall be—						The income and defense tax shall be—													
\$0	\$675	\$0	\$0	\$0	\$0	\$2,325	\$2,350	\$338	\$338	\$203	\$203	\$203	\$68	\$68	\$68	\$0	\$0	\$0	\$0	\$0	
675	700	4	0	0	0	2,350	2,375	343	343	208	208	208	73	73	73	0	0	0	0	0	
700	725	9	0	0	0	2,375	2,400	348	348	213	213	213	78	78	78	0	0	0	0	0	
725	750	14	0	0	0	2,400	2,425	354	354	219	219	219	84	84	84	0	0	0	0	0	
750	775	19	0	0	0	2,425	2,450	359	359	224	224	224	89	89	89	0	0	0	0	0	
775	800	24	0	0	0	2,450	2,475	364	364	229	229	229	94	94	94	0	0	0	0	0	
800	825	30	0	0	0	2,475	2,500	369	369	234	234	234	99	99	99	0	0	0	0	0	
825	850	35	0	0	0	2,500	2,525	374	374	239	239	239	104	104	104	0	0	0	0	0	
850	875	40	0	0	0	2,525	2,550	379	379	244	244	244	109	109	109	0	0	0	0	0	
875	900	45	0	0	0	2,550	2,575	384	384	249	249	249	114	114	114	0	0	0	0	0	
900	925	50	0	0	0	2,575	2,600	389	389	254	254	254	119	119	119	0	0	0	0	0	
925	950	55	0	0	0	2,600	2,625	394	394	259	259	259	124	124	124	0	0	0	0	0	
950	975	60	0	0	0	2,625	2,650	399	399	264	264	264	129	129	129	0	0	0	0	0	
975	1,000	65	0	0	0	2,650	2,675	404	404	269	269	269	134	134	134	0	0	0	0	0	
1,000	1,025	70	0	0	0	2,675	2,700	409	409	274	274	274	139	139	139	4	0	0	0	0	
1,025	1,050	75	0	0	0	2,700	2,725	414	414	279	279	279	144	144	144	9	0	0	0	0	
1,050	1,075	80	0	0	0	2,725	2,750	419	419	284	284	284	149	149	149	14	0	0	0	0	
1,075	1,100	85	0	0	0	2,750	2,775	424	424	289	289	289	154	154	154	19	0	0	0	0	
1,100	1,125	90	0	0	0	2,775	2,800	429	429	294	294	294	159	159	159	24	0	0	0	0	
1,125	1,150	95	0	0	0	2,800	2,825	433	433	300	300	300	165	165	165	30	0	0	0	0	
1,150	1,175	100	0	0	0	2,825	2,850	440	440	305	305	305	170	170	170	35	0	0	0	0	
1,175	1,200	105	0	0	0	2,850	2,875	445	445	310	310	310	175	175	175	40	0	0	0	0	
1,200	1,225	111	0	0	0	2,875	2,900	450	450	315	315	315	180	180	180	45	0	0	0	0	
1,225	1,250	116	0	0	0	2,900	2,925	455	455	320	320	320	185	185	185	50	0	0	0	0	
1,250	1,275	121	0	0	0	2,925	2,950	461	461	325	325	325	190	190	190	55	0	0	0	0	
1,275	1,300	126	0	0	0	2,950	2,975	466	466	330	330	330	195	195	195	60	0	0	0	0	
1,300	1,325	131	0	0	0	2,975	3,000	472	471	335	335	335	200	200	200	65	0	0	0	0	
1,325	1,350	136	1	0	0	3,000	3,050	480	479	343	343	343	208	208	208	73	0	0	0	0	
1,350	1,375	141	6	0	0	3,050	3,100	491	490	353	353	353	218	218	218	83	0	0	0	0	
1,375	1,400	146	11	0	0	3,100	3,150	503	500	363	363	363	228	228	228	93	0	0	0	0	
1,400	1,425	151	16	0	0	3,150	3,200	514	511	373	373	373	238	238	238	103	0	0	0	0	
1,425	1,450	156	21	0	0	3,200	3,250	525	521	383	383	383	248	248	248	113	0	0	0	0	
1,450	1,475	161	26	0	0	3,250	3,300	535	532	393	393	393	258	258	258	123	0	0	0	0	
1,475	1,500	166	31	0	0	3,300	3,350	547	543	403	403	403	268	268	268	133	0	0	0	0	
1,500	1,525	171	36	0	0	3,350	3,400	558	553	413	413	413	278	278	278	143	8	0	0	0	
1,525	1,550	176	41	0	0	3,400	3,450	569	564	424	424	424	289	289	289	154	19	0	0	0	
1,550	1,575	181	46	0	0	3,450	3,500	581	575	434	434	434	299	299	299	164	29	0	0	0	
1,575	1,600	186	51	0	0	3,500	3,550	592	585	444	444	444	309	309	309	174	39	0	0	0	
1,600	1,625	192	57	0	0	3,550	3,600	603	596	454	454	454	319	319	319	184	49	0	0	0	
1,625	1,650	197	62	0	0	3,600	3,650	614	607	465	465	464	329	329	329	194	59	0	0	0	
1,650	1,675	202	67	0	0	3,650	3,700	625	617	477	475	474	339	339	339	204	69	0	0	0	
1,675	1,700	207	72	0	0	3,700	3,750	636	628	483	483	484	349	349	349	214	79	0	0	0	
1,700	1,725	212	77	0	0	3,750	3,800	647	638	499	497	494	359	359	359	224	89	0	0	0	
1,725	1,750	217	82	0	0	3,800	3,850	659	649	510	507	505	370	370	370	235	100	0	0	0	
1,750	1,775	222	87	0	0	3,850	3,900	670	660	521	518	515	380	380	380	245	110	0	0	0	
1,775	1,800	227	92	0	0	3,900	3,950	681	670	532	529	525	390	390	390	255	120	0	0	0	
1,800	1,825	232	97	0	0	3,950	4,000	692	681	543	539	535	400	400	400	265	130	0	0	0	
1,825	1,850	237	102	0	0	4,000	4,050	703	692	555	550	545	410	410	410	275	140	5	0	0	
1,850	1,875	242	107	0	0	4,050	4,100	714	702	566	560	555	420	420	420	285	150	15	0	0	
1,875	1,900	247	112	0	0	4,100	4,150	725	713	577	571	565	430	430	430	295	160	25	0	0	
1,900	1,925	252	117	0	0	4,150	4,200	736	723	588	582	575	440	440	440	305	170	35	0	0	
1,925	1,950	257	122	0	0	4,200	4,250	748	734	599	592	586	451	451	451	316	181	46	0	0	
1,950	1,975	262	127	0	0	4,250	4,300	759	745	610	603	596	462	461	461	326	191	56	0	0	
1,975	2,000	267	132	0	0	4,300	4,350	770	755	621	614	606	473	472	471	336	201	66	0	0	
2,000	2,025	273	138	3	0	4,350	4,400	781	766	633	624	616	484	482	481	346	211	76	0	0	
2,025	2,050	278	143	8	0	4,400	4,450	792	777	644	635	626	495	493	491	356	221	86	0	0	
2,050	2,075	283	148	13	0	4,450	4,500	803	787	655	645	636	506	504	501	366	231	96	0	0	
2,075	2,100	288	153	18	0	4,500	4,550	814	798	666	656	646	517	514	511	376	241	106	0	0	
2,100	2,125	293	158	23	0	4,550	4,600	826	809	677	667	656	529	525	521	386	251	116	0	0	
2,125	2,150	298	163	28	0	4,600	4,650	837	819	688	677	667	540	536	532	397	262	127	0	0	
2,150</																					

and ending on December 31, 1951, there shall be levied, collected, and paid for such taxable year upon the surtax net income of every individual the surtax shown in the following table:

"If the surtax net income is: The surtax shall be:	
Not over \$2,000----	17.4 percent of the surtax net income.
Over \$2,000 but not over \$4,000.	\$348, plus 19.4 percent of excess over \$2,000.
Over \$4,000 but not over \$6,000.	\$736, plus 23 percent of excess over \$4,000.
Over \$6,000 but not over \$8,000.	\$1,196, plus 28 percent of excess over \$6,000.
Over \$8,000 but not over \$10,000.	\$1,756, plus 32 percent of excess over \$8,000.
Over \$10,000 but not over \$12,000.	\$2,396, plus 35 percent of excess over \$10,000.
Over \$12,000 but not over \$14,000.	\$3,096, plus 41 percent of excess over \$12,000.
Over \$14,000 but not over \$16,000.	\$3,916, plus 45 percent of excess over \$14,000.
Over \$16,000 but not over \$18,000.	\$4,816, plus 48 percent of excess over \$16,000.
Over \$18,000 but not over \$20,000.	\$5,776, plus 51 percent of excess over \$18,000.
Over \$20,000 but not over \$22,000.	\$6,796, plus 54 percent of excess over \$20,000.
Over \$22,000 but not over \$26,000.	\$7,876, plus 57 percent of excess over \$22,000.
Over \$26,000 but not over \$32,000.	\$10,156, plus 60 percent of excess over \$26,000.
Over \$32,000 but not over \$38,000.	\$13,756, plus 62 percent of excess over \$32,000.
Over \$38,000 but not over \$44,000.	\$17,476, plus 67 percent of excess over \$38,000.
Over \$44,000 but not over \$50,000.	\$21,496, plus 69 percent of excess over \$44,000.
Over \$50,000 but not over \$60,000.	\$25,636, plus 72 percent of excess over \$50,000.
Over \$60,000 but not over \$70,000.	\$32,836, plus 76 percent of excess over \$60,000.
Over \$70,000 but not over \$80,000.	\$40,436, plus 78 percent of excess over \$70,000.
Over \$80,000 but not over \$90,000.	\$48,236, plus 81 percent of excess over \$80,000.
Over \$90,000 but not over \$100,000.	\$56,336, plus 84 percent of excess over \$90,000.
Over \$100,000 but not over \$150,000.	\$64,736, plus 86 percent of excess over \$100,000.
Over \$150,000 but not over \$200,000.	\$107,736, plus 87 percent of excess over \$150,000.
Over \$200,000 -----	\$151,236, plus 88.1 percent of excess over \$200,000.

"(2) Taxable years beginning after October 31, 1951, and before January 1, 1954: In the case of taxable years beginning after October 31, 1951, and before January 1, 1954,

there shall be levied, collected, and paid for each taxable year upon the surtax net income of every individual (other than a head of a household to whom subsection (c) applies) the surtax shown in the following table:

"If the surtax net income is: The surtax shall be:	
Not over \$2,000-----	19.2 percent of the surtax net income.
Over \$2,000 but not over \$4,000.	\$384, plus 21.4 percent of excess over \$2,000.
Over \$4,000 but not over \$6,000.	\$812, plus 26 percent of excess over \$4,000.
Over \$6,000 but not over \$8,000.	\$1,332, plus 30 percent of excess over \$6,000.
Over \$8,000 but not over \$10,000.	\$1,932, plus 35 percent of excess over \$8,000.
Over \$10,000 but not over \$12,000.	\$2,632, plus 39 percent of excess over \$10,000.
Over \$12,000 but not over \$14,000.	\$3,412, plus 45 percent of excess over \$12,000.
Over \$14,000 but not over \$16,000.	\$4,312, plus 49 percent of excess over \$14,000.
Over \$16,000 but not over \$18,000.	\$5,292, plus 53 percent of excess over \$16,000.
Over \$18,000 but not over \$20,000.	\$6,352, plus 56 percent of excess over \$18,000.
Over \$20,000 but not over \$22,000.	\$7,472, plus 59 percent of excess over \$20,000.
Over \$22,000 but not over \$28,000.	\$8,652, plus 62 percent of excess over \$22,000.
Over \$28,000 but not over \$34,000.	\$12,372, plus 64 percent of excess over \$28,000.
Over \$34,000 but not over \$40,000.	\$16,212, plus 66 percent of excess over \$34,000.
Over \$40,000 but not over \$50,000.	\$20,172, plus 70 percent of excess over \$40,000.
Over \$50,000 but not over \$60,000.	\$27,172, plus 74 percent of excess over \$50,000.
Over \$60,000 but not over \$70,000.	\$34,572, plus 77 percent of excess over \$60,000.
Over \$70,000 but not over \$80,000.	\$42,272, plus 79 percent of excess over \$70,000.
Over \$80,000 but not over \$90,000.	\$50,172, plus 82 percent of excess over \$80,000.
Over \$90,000 but not over \$100,000.	\$58,372, plus 85 percent of excess over \$90,000.
Over \$100,000 but not over \$150,000.	\$66,872, plus 87 percent of excess over \$100,000.
Over \$150,000 but not over \$200,000.	\$110,372, plus 88 percent of excess over \$150,000.
Over \$200,000-----	\$154,372, plus 88.7 percent of excess over \$200,000.

"(3) Taxable years beginning after December 31, 1953: In the case of taxable years beginning after December 31, 1953, there shall be levied, collected, and paid for each taxable year upon the surtax net income of every individual (other than a head of a household to whom subsection (c) ap-

plies) the surtax shown in the following table:

"If the surtax net income is: The surtax shall be:	
Not over \$2,000-----	17 percent of the surtax net income.
Over \$2,000 but not over \$4,000.	\$340, plus 19 percent of excess over \$2,000.
Over \$4,000 but not over \$6,000.	\$720, plus 23 percent of excess over \$4,000.
Over \$6,000 but not over \$8,000.	\$1,180, plus 27 percent of excess over \$6,000.
Over \$8,000 but not over \$10,000.	\$1,720, plus 31 percent of excess over \$8,000.
Over \$10,000 but not over \$12,000.	\$2,340, plus 35 percent of excess over \$10,000.
Over \$12,000 but not over \$14,000.	\$3,040, plus 40 percent of excess over \$12,000.
Over \$14,000 but not over \$16,000.	\$3,840, plus 44 percent of excess over \$14,000.
Over \$16,000 but not over \$18,000.	\$4,720, plus 47 percent of excess over \$16,000.
Over \$18,000 but not over \$20,000.	\$5,660, plus 50 percent of excess over \$18,000.
Over \$20,000 but not over \$22,000.	\$6,660, plus 53 percent of excess over \$20,000.
Over \$22,000 but not over \$26,000.	\$7,720, plus 56 percent of excess over \$22,000.
Over \$26,000 but not over \$32,000.	\$9,960, plus 59 percent of excess over \$26,000.
Over \$32,000 but not over \$38,000.	\$13,500, plus 62 percent of excess over \$32,000.
Over \$38,000 but not over \$44,000.	\$17,220, plus 66 percent of excess over \$38,000.
Over \$44,000 but not over \$50,000.	\$21,180, plus 69 percent of excess over \$44,000.
Over \$50,000 but not over \$60,000.	\$25,320, plus 72 percent of excess over \$50,000.
Over \$60,000 but not over \$70,000.	\$32,520, plus 75 percent of excess over \$60,000.
Over \$70,000 but not over \$80,000.	\$40,020, plus 78 percent of excess over \$70,000.
Over \$80,000 but not over \$90,000.	\$47,820, plus 81 percent of excess over \$80,000.
Over \$90,000 but not over \$100,000.	\$55,920, plus 84 percent of excess over \$90,000.
Over \$100,000 but not over \$150,000.	\$64,320, plus 86 percent of excess over \$100,000.
Over \$150,000 but not over \$200,000.	\$107,320, plus 87 percent of excess over \$150,000.
Over \$200,000 -----	\$150,820, plus 88 percent of excess over \$200,000.

"(b) Limitation on tax: Section 12 (f) (relating to limitation on tax) is hereby amended to read as follows:

"(f) Limitation on tax:

"(1) Calendar year 1951: In the case of a taxable year beginning on January 1, 1951, and ending December 31, 1951, the combined

normal tax and surtax shall in no event exceed 87.2 percent of the net income for the taxable year.

"(2) Taxable years beginning after October 31, 1951, and before January 1, 1954: In the case of taxable years beginning after October 31, 1951, and before January 1, 1954, the combined normal tax and surtax shall

in no event exceed 88 percent of the net income of the taxable year.

"(3) Taxable years beginning after December 31, 1953: In the case of taxable years beginning after December 31, 1953, the combined normal tax and surtax shall in no event exceed 87 percent of the net income for the taxable year."

"Sec. 102. Individuals with adjusted gross income of less than \$5,000

"Section 400 (relating to optional tax on individuals with adjusted gross incomes of less than \$5,000) is hereby amended by striking out the tables contained therein and inserting in lieu thereof the following:

"TABLE I.—Taxable year beginning Jan. 1, 1951, and ending Dec. 31, 1951

If adjusted gross income is—		And the number of exemptions is—				If adjusted gross income is—		And the number of exemptions is—									
At least	But less than	1	2	3	4 or more	At least	But less than	1	2		3		4	5	6	7	8 or more
									And taxpayer is single or married filing separately	And a joint return is filed	And taxpayer is single or married filing separately	And a joint return is filed					
The tax shall be—						The tax shall be—											
\$0	\$675	\$0	\$0	\$0	\$0	\$2,325	\$2,350	\$307	\$184	\$184	\$62	\$62	\$0	\$0	\$0	\$0	\$0
675	700	4	0	0	0	2,350	2,375	311	189	189	67	67	0	0	0	0	0
700	725	8	0	0	0	2,375	2,400	316	184	184	71	71	0	0	0	0	0
725	750	13	0	0	0	2,400	2,425	321	198	198	76	76	0	0	0	0	0
750	775	18	0	0	0	2,425	2,450	325	203	203	80	80	0	0	0	0	0
775	800	22	0	0	0	2,450	2,475	330	207	207	85	85	0	0	0	0	0
800	825	27	0	0	0	2,475	2,500	334	212	212	90	90	0	0	0	0	0
825	850	31	0	0	0	2,500	2,525	339	216	216	94	94	0	0	0	0	0
850	875	36	0	0	0	2,525	2,550	343	221	221	99	99	0	0	0	0	0
875	900	41	0	0	0	2,550	2,575	348	223	223	103	103	0	0	0	0	0
900	925	45	0	0	0	2,575	2,600	353	230	230	108	108	0	0	0	0	0
925	950	50	0	0	0	2,600	2,625	357	235	235	112	112	0	0	0	0	0
950	975	54	0	0	9	2,625	2,650	362	239	239	117	117	0	0	0	0	0
975	1,000	59	0	0	0	2,650	2,675	366	244	244	122	122	0	0	0	0	0
1,000	1,025	63	0	0	0	2,675	2,700	371	249	249	126	126	4	0	0	0	0
1,025	1,050	68	0	0	0	2,700	2,725	376	253	253	131	131	8	0	0	0	0
1,050	1,075	73	0	0	9	2,725	2,750	380	258	258	135	135	13	0	0	0	0
1,075	1,100	77	0	0	0	2,750	2,775	385	262	262	140	140	18	0	0	0	0
1,100	1,125	82	0	0	0	2,775	2,800	389	267	267	145	145	22	0	0	0	0
1,125	1,150	86	0	0	0	2,800	2,825	394	272	272	149	149	27	0	0	0	0
1,150	1,175	91	0	0	0	2,825	2,850	399	276	276	154	154	31	0	0	0	0
1,175	1,200	96	0	0	0	2,850	2,875	403	281	281	158	158	36	0	0	0	0
1,200	1,225	100	0	0	0	2,875	2,900	408	285	285	163	163	41	0	0	0	0
1,225	1,250	105	0	0	0	2,900	2,925	413	290	290	168	168	45	0	0	0	0
1,250	1,275	109	0	0	0	2,925	2,950	418	295	295	172	172	50	0	0	0	0
1,275	1,300	114	0	0	0	2,950	2,975	423	299	299	177	177	54	0	0	0	0
1,300	1,325	119	0	0	0	2,975	3,000	428	304	304	181	181	59	0	0	0	0
1,325	1,350	123	1	0	0	3,000	3,050	435	311	311	188	188	66	0	0	0	0
1,350	1,375	128	5	0	0	3,050	3,100	446	320	320	197	197	75	0	0	0	0
1,375	1,400	132	10	0	0	3,100	3,150	456	329	329	207	207	84	0	0	0	0
1,400	1,425	137	15	0	0	3,150	3,200	466	338	338	216	216	93	0	0	0	0
1,425	1,450	142	19	0	0	3,200	3,250	476	347	347	225	225	103	0	0	0	0
1,450	1,475	146	24	0	0	3,250	3,300	486	356	356	234	234	112	0	0	0	0
1,475	1,500	151	28	0	0	3,300	3,350	496	365	366	243	243	121	0	0	0	0
1,500	1,525	155	33	0	0	3,350	3,400	506	375	375	252	252	130	8	0	0	0
1,525	1,550	160	37	0	0	3,400	3,450	516	384	384	262	262	139	17	0	0	0
1,550	1,575	164	42	0	0	3,450	3,500	526	393	393	271	271	148	26	0	0	0
1,575	1,600	169	47	0	0	3,500	3,550	536	402	402	280	280	158	35	0	0	0
1,600	1,625	174	51	0	0	3,550	3,600	546	412	412	289	289	167	44	0	0	0
1,625	1,650	178	56	0	0	3,600	3,650	556	422	421	298	298	176	54	0	0	0
1,650	1,675	183	60	0	0	3,650	3,700	566	432	430	308	308	185	63	0	0	0
1,675	1,700	187	65	0	0	3,700	3,750	577	442	439	317	317	194	72	0	0	0
1,700	1,725	192	70	0	0	3,750	3,800	587	452	448	326	326	203	81	0	0	0
1,725	1,750	197	74	0	0	3,800	3,850	597	462	457	335	335	213	90	0	0	0
1,750	1,775	201	79	0	0	3,850	3,900	607	472	467	344	344	222	99	0	0	0
1,775	1,800	206	83	0	0	3,900	3,950	617	482	476	353	353	231	109	0	0	0
1,800	1,825	210	88	0	0	3,950	4,000	627	493	485	363	363	240	118	0	0	0
1,825	1,850	215	92	0	0	4,000	4,050	637	503	494	372	372	249	127	5	0	0
1,850	1,875	220	97	0	0	4,050	4,100	647	513	503	381	381	259	136	14	0	0
1,875	1,900	224	102	0	0	4,100	4,150	657	523	513	390	390	268	145	23	0	0
1,900	1,925	229	106	0	0	4,150	4,200	667	533	522	399	399	277	155	32	0	0
1,925	1,950	233	111	0	0	4,200	4,250	677	543	531	409	409	286	164	41	0	0
1,950	1,975	238	116	0	0	4,250	4,300	687	553	540	419	418	295	173	50	0	0
1,975	2,000	243	120	0	0	4,300	4,350	698	563	549	429	427	304	182	60	0	0
2,000	2,025	247	125	2	0	4,350	4,400	708	573	558	439	436	314	191	69	0	0
2,025	2,050	252	129	7	0	4,400	4,450	718	583	568	449	445	323	200	78	0	0
2,050	2,075	256	134	11	0	4,450	4,500	728	593	577	459	454	332	210	87	0	0
2,075	2,100	261	138	16	0	4,500	4,550	738	603	586	469	464	341	219	96	0	0
2,100	2,125	265	143	21	0	4,550	4,600	748	614	595	479	473	350	228	106	0	0
2,125	2,150	270	148	25	0	4,600	4,650	758	624	604	489	482	360	237	115	0	0
2,150	2,175	275	152	30	0	4,650	4,700	768	634	614	499	491	369	246	124	2	0
2,175	2,200	279	157	34	0	4,700	4,750	778	644	623	509	500	378	256	133	11	0
2,200	2,225	284	161	39	0	4,750	4,800	788	654	632	519	509	387	265	142	20	0
2,225	2,250	288	166	44	0	4,800	4,850	798	664	641	530	519	396	274	151	29	0
2,250	2,275	293	171	48	0	4,850	4,900	808	674	650	540	528	405	283	161	38	0
2,275	2,300	298	175	53	0	4,900	4,950	818	684	659	550	537	415	292	170	47	0
2,300	2,325	302	180	57	0	4,950	5,000	829	694	669	560	546	424	301	179	57	0

"TABLE II.—Taxable years beginning after Oct. 31, 1951, and before Jan. 1, 1954

If adjusted gross income is—		And the number of exemptions is—				If adjusted gross income is—		And the number of exemptions is—												
At least	But less than	1	2	3	4 or more	At least	But less than	1		2			3			4	5	6	7	8 or more
								And tax- payer is single or married filing sep- arately	And tax- payer is head of house- hold	And tax- payer is single or married filing sep- arately	And tax- payer is head of house- hold	And a joint return is filed	And tax- payer is single or married filing sep- arately	And tax- payer is head of house- hold	And a joint return is filed					
		The tax shall be—						The tax shall be—												
\$0	\$675	\$0	\$0	\$0	\$0	\$2,325	\$2,350	\$334	\$334	\$201	\$201	\$201	\$67	\$67	\$67	\$0	\$0	\$0	\$0	\$0
675	700	4	0	0	0	2,350	2,375	339	339	206	206	206	72	72	72	0	0	0	0	0
700	725	9	0	0	0	2,375	2,400	344	344	211	211	211	77	77	77	0	0	0	0	0
725	750	14	0	0	0	2,400	2,425	349	349	216	216	216	82	82	82	0	0	0	0	0
750	775	19	0	0	0	2,425	2,450	354	354	221	221	221	87	87	87	0	0	0	0	0
775	800	24	0	0	0	2,450	2,475	359	359	226	226	226	92	92	92	0	0	0	0	0
800	825	29	0	0	0	2,475	2,500	364	364	231	231	231	97	97	97	0	0	0	0	0
825	850	34	0	0	0	2,500	2,525	369	369	236	236	236	102	102	102	0	0	0	0	0
850	875	39	0	0	0	2,525	2,550	374	374	241	241	241	107	107	107	0	0	0	0	0
875	900	44	0	0	0	2,550	2,575	379	379	246	246	246	112	112	112	0	0	0	0	0
900	925	49	0	0	0	2,575	2,600	384	384	251	251	251	117	117	117	0	0	0	0	0
925	950	54	0	0	0	2,600	2,625	389	389	256	256	256	122	122	122	0	0	0	0	0
950	975	59	0	0	0	2,625	2,650	394	394	261	261	261	127	127	127	0	0	0	0	0
975	1,000	64	0	0	0	2,650	2,675	399	399	266	266	266	132	132	132	0	0	0	0	0
1,000	1,025	69	0	0	0	2,675	2,700	404	404	271	271	271	137	137	137	4	0	0	0	0
1,025	1,050	74	0	0	0	2,700	2,725	409	409	276	276	276	142	142	142	9	0	0	0	0
1,050	1,075	79	0	0	0	2,725	2,750	414	414	281	281	281	147	147	147	14	0	0	0	0
1,075	1,100	84	0	0	0	2,750	2,775	419	419	286	286	286	152	152	152	19	0	0	0	0
1,100	1,125	89	0	0	0	2,775	2,800	424	424	291	291	291	157	157	157	24	0	0	0	0
1,125	1,150	94	0	0	0	2,800	2,825	429	429	296	296	296	162	162	162	29	0	0	0	0
1,150	1,175	99	0	0	0	2,825	2,850	434	434	301	301	301	167	167	167	34	0	0	0	0
1,175	1,200	104	0	0	0	2,850	2,875	439	439	306	306	306	172	172	172	39	0	0	0	0
1,200	1,225	109	0	0	0	2,875	2,900	444	444	311	311	311	177	177	177	44	0	0	0	0
1,225	1,250	114	0	0	0	2,900	2,925	449	449	316	316	316	182	182	182	49	0	0	0	0
1,250	1,275	119	0	0	0	2,925	2,950	455	454	321	321	321	187	187	187	54	0	0	0	0
1,275	1,300	124	0	0	0	2,950	2,975	460	460	326	326	326	192	192	192	59	0	0	0	0
1,300	1,325	129	0	0	0	2,975	3,000	465	465	331	331	331	197	197	197	64	0	0	0	0
1,325	1,350	134	1	0	0	3,000	3,050	474	473	338	338	338	205	205	205	72	0	0	0	0
1,350	1,375	139	6	0	0	3,050	3,100	485	484	348	348	348	215	215	215	82	0	0	0	0
1,375	1,400	144	11	0	0	3,100	3,150	496	495	358	358	358	225	225	225	92	0	0	0	0
1,400	1,425	149	16	0	0	3,150	3,200	507	505	368	368	368	235	235	235	102	0	0	0	0
1,425	1,450	154	21	0	0	3,200	3,250	518	516	378	378	378	245	245	245	112	0	0	0	0
1,450	1,475	159	26	0	0	3,250	3,300	529	527	388	388	388	255	255	255	122	0	0	0	0
1,475	1,500	164	31	0	0	3,300	3,350	540	537	398	398	398	265	265	265	132	0	0	0	0
1,500	1,525	169	36	0	0	3,350	3,400	551	548	408	408	408	275	275	275	142	8	0	0	0
1,525	1,550	174	41	0	0	3,400	3,450	562	559	418	418	418	285	285	285	152	18	0	0	0
1,550	1,575	179	46	0	0	3,450	3,500	573	570	428	428	428	295	295	295	162	28	0	0	0
1,575	1,600	184	51	0	0	3,500	3,550	584	580	438	438	438	305	305	305	171	38	0	0	0
1,600	1,625	189	56	0	0	3,550	3,600	595	591	448	448	448	315	315	315	181	48	0	0	0
1,625	1,650	194	61	0	0	3,600	3,650	606	602	459	459	459	325	325	325	191	58	0	0	0
1,650	1,675	199	66	0	0	3,650	3,700	617	612	470	470	470	335	335	335	201	68	0	0	0
1,675	1,700	204	71	0	0	3,700	3,750	628	623	480	480	480	345	345	345	211	78	0	0	0
1,700	1,725	209	76	0	0	3,750	3,800	639	634	492	491	488	355	355	355	221	88	0	0	0
1,725	1,750	214	81	0	0	3,800	3,850	650	645	503	502	498	365	365	365	231	98	0	0	0
1,750	1,775	219	86	0	0	3,850	3,900	661	655	514	512	508	375	375	375	241	108	0	0	0
1,775	1,800	224	91	0	0	3,900	3,950	672	666	525	523	518	385	385	385	251	118	0	0	0
1,800	1,825	229	96	0	0	3,950	4,000	683	677	536	534	528	395	395	395	261	128	0	0	0
1,825	1,850	234	101	0	0	4,000	4,050	694	687	547	545	538	405	405	405	271	138	0	0	0
1,850	1,875	239	106	0	0	4,050	4,100	704	698	558	555	548	415	415	415	281	148	15	0	0
1,875	1,900	244	111	0	0	4,100	4,150	715	709	569	566	558	425	425	425	291	158	25	0	0
1,900	1,925	249	116	0	0	4,150	4,200	726	719	580	577	568	435	435	435	301	168	35	0	0
1,925	1,950	254	121	0	0	4,200	4,250	737	730	591	587	578	445	445	445	311	178	45	0	0
1,950	1,975	259	126	0	0	4,250	4,300	748	741	602	598	588	455	455	455	321	188	55	0	0
1,975	2,000	264	131	0	0	4,300	4,350	759	752	613	609	598	465	466	465	331	198	65	0	0
2,000	2,025	269	136	2	0	4,350	4,400	770	762	624	620	608	475	477	475	341	208	75	0	0
2,025	2,050	274	141	7	0	4,400	4,450	781	773	635	630	618	485	487	485	351	218	85	0	0
2,050	2,075	279	146	12	0	4,450	4,500	792	784	646	641	628	495	498	495	361	228	95	0	0
2,075	2,100	284	151	17	0	4,500	4,550	803	794	657	652	638	505	509	504	371	238	105	0	0
2,100	2,125	289	156	22	0	4,550	4,600	814	805	668	662	648	515	520	514	381	248	115	0	0
2,125	2,150	294	161	27	0	4,600	4,650	825	816	679	673	658	525	530	524	391	258	125	0	0
2,150	2,175	299	166	32	0	4,650	4,700	836	827	690	684	668	535	541	534	401	268	135	2	0
2,175	2,200	304	171	37	0	4,700	4,750	847	837	701</										

"TABLE III.—Taxable years beginning after Dec. 31, 1953

If adjusted gross income is—		And the number of exemptions is—				If adjusted gross income is—		And the number of exemptions is—													
								1		2		3			4	5	6	7	8 or more		
At least	But less than	1	2	3	4 or more	At least	But less than	And tax-payer is single or married filing sep-arately	And tax-payer is head of house-hold	And tax-payer is single or married filing sep-arately	And tax-payer is head of house-hold	And a joint return is filed	And tax-payer is single or married filing sep-arately	And tax-payer is head of house-hold						And a joint return is filed	
The tax shall be—						The tax shall be—															
\$0	\$675	\$0	\$0	\$0	\$0	\$2,325	\$2,350	\$301	\$301	\$181	\$181	\$181	\$61	\$61	\$61	\$0	\$0	\$0	\$0	\$0	
675	700	4	0	0	0	2,350	2,375	305	305	185	185	185	65	65	65	0	0	0	0	0	
700	725	8	0	0	0	2,375	2,400	310	310	190	190	190	70	70	70	0	0	0	0	0	
725	750	13	0	0	0	2,400	2,425	314	314	194	194	194	74	74	74	0	0	0	0	0	
750	775	17	0	0	0	2,425	2,450	319	319	199	199	199	79	79	79	0	0	0	0	0	
775	800	22	0	0	0	2,450	2,475	323	323	203	203	203	83	83	83	0	0	0	0	0	
800	825	26	0	0	0	2,475	2,500	328	328	208	208	208	88	88	88	0	0	0	0	0	
825	850	31	0	0	0	2,500	2,525	332	332	212	212	212	92	92	92	0	0	0	0	0	
850	875	35	0	0	0	2,525	2,550	337	337	217	217	217	97	97	97	0	0	0	0	0	
875	900	40	0	0	0	2,550	2,575	341	341	221	221	221	101	101	101	0	0	0	0	0	
900	925	44	0	0	0	2,575	2,600	346	346	226	226	226	106	106	106	0	0	0	0	0	
925	950	49	0	0	0	2,600	2,625	350	350	230	230	230	110	110	110	0	0	0	0	0	
950	975	53	0	0	0	2,625	2,650	355	355	235	235	235	115	115	115	0	0	0	0	0	
975	1,000	58	0	0	0	2,650	2,675	359	359	239	239	239	119	119	119	0	0	0	0	0	
1,000	1,025	62	0	0	0	2,675	2,700	364	364	244	244	244	124	124	124	4	0	0	0	0	
1,025	1,050	67	0	0	0	2,700	2,725	368	368	248	248	248	128	128	128	8	0	0	0	0	
1,050	1,075	71	0	0	0	2,725	2,750	373	373	253	253	253	133	133	133	13	0	0	0	0	
1,075	1,100	76	0	0	0	2,750	2,775	377	377	257	257	257	137	137	137	17	0	0	0	0	
1,100	1,125	80	0	0	0	2,775	2,800	382	382	262	262	262	142	142	142	22	0	0	0	0	
1,125	1,150	85	0	0	0	2,800	2,825	386	386	266	266	266	146	146	146	26	0	0	0	0	
1,150	1,175	89	0	0	0	2,825	2,850	391	391	271	271	271	151	151	151	31	0	0	0	0	
1,175	1,200	94	0	0	0	2,850	2,875	395	395	275	275	275	155	155	155	35	0	0	0	0	
1,200	1,225	98	0	0	0	2,875	2,900	400	400	280	280	280	160	160	160	40	0	0	0	0	
1,225	1,250	103	0	0	0	2,900	2,925	405	405	284	284	284	164	164	164	44	0	0	0	0	
1,250	1,275	107	0	0	0	2,925	2,950	410	409	289	289	289	169	169	169	49	0	0	0	0	
1,275	1,300	112	0	0	0	2,950	2,975	415	414	293	293	293	173	173	173	53	0	0	0	0	
1,300	1,325	116	0	0	0	2,975	3,000	420	419	298	298	298	178	178	178	58	0	0	0	0	
1,325	1,350	121	1	0	0	3,000	3,050	427	426	305	305	305	185	185	185	65	0	0	0	0	
1,350	1,375	125	5	0	0	3,050	3,100	437	436	314	314	314	194	194	194	74	0	0	0	0	
1,375	1,400	130	10	0	0	3,100	3,150	447	446	323	323	323	203	203	203	83	0	0	0	0	
1,400	1,425	134	14	0	0	3,150	3,200	457	455	332	332	332	212	212	212	92	0	0	0	0	
1,425	1,450	139	19	0	0	3,200	3,250	467	465	341	341	341	221	221	221	101	0	0	0	0	
1,450	1,475	143	23	0	0	3,250	3,300	476	475	350	350	350	230	230	230	110	0	0	0	0	
1,475	1,500	148	28	0	0	3,300	3,350	486	484	359	359	359	239	239	239	119	0	0	0	0	
1,500	1,525	152	32	0	0	3,350	3,400	496	494	368	368	368	248	248	248	128	8	0	0	0	
1,525	1,550	157	37	0	0	3,400	3,450	506	504	377	377	377	257	257	257	137	17	0	0	0	
1,550	1,575	161	41	0	0	3,450	3,500	516	513	386	386	386	266	266	266	146	26	0	0	0	
1,575	1,600	166	46	0	0	3,500	3,550	526	523	395	395	395	275	275	275	155	35	0	0	0	
1,600	1,625	170	50	0	0	3,550	3,600	536	533	404	404	404	284	284	284	164	44	0	0	0	
1,625	1,650	175	55	0	0	3,600	3,650	546	542	414	413	413	293	293	293	173	53	0	0	0	
1,650	1,675	179	59	0	0	3,650	3,700	556	552	424	423	422	302	302	302	182	62	0	0	0	
1,675	1,700	184	64	0	0	3,700	3,750	566	562	434	433	431	311	311	311	191	71	0	0	0	
1,700	1,725	188	68	0	0	3,750	3,800	575	571	443	442	440	320	320	320	200	80	0	0	0	
1,725	1,750	193	73	0	0	3,800	3,850	585	581	453	452	449	329	329	329	209	89	0	0	0	
1,750	1,775	197	77	0	0	3,850	3,900	595	591	463	462	458	338	338	338	218	98	0	0	0	
1,775	1,800	202	82	0	0	3,900	3,950	605	600	473	471	467	347	347	347	227	107	0	0	0	
1,800	1,825	206	86	0	0	3,950	4,000	615	610	483	481	476	356	356	356	236	116	0	0	0	
1,825	1,850	211	91	0	0	4,000	4,050	625	620	493	491	485	365	365	365	245	125	5	0	0	
1,850	1,875	215	95	0	0	4,050	4,100	635	630	503	501	494	374	374	374	254	134	14	0	0	
1,875	1,900	220	100	0	0	4,100	4,150	645	639	513	510	503	383	383	383	263	143	23	0	0	
1,900	1,925	224	104	0	0	4,150	4,200	655	649	523	520	512	392	392	392	272	152	32	0	0	
1,925	1,950	229	109	0	0	4,200	4,250	665	659	533	530	521	401	401	401	281	161	41	0	0	
1,950	1,975	233	113	0	0	4,250	4,300	674	668	542	539	530	410	410	410	290	170	50	0	0	
1,975	2,000	238	118	0	0	4,300	4,350	684	678	552	549	539	420	420	420	299	179	59	0	0	
2,000	2,025	242	122	2	0	4,350	4,400	694	688	562	559	548	430	430	430	308	188	68	0	0	
2,025	2,050	247	127	7	0	4,400	4,450	704	697	572	568	557	440	439	437	317	197	77	0	0	
2,050	2,075	251	131	11	0	4,450	4,500	714	707	582	578	566	450	449	446	326	206	86	0	0	
2,075	2,100	256	136	16	0	4,500	4,550	724	717	592	588	575	460	459	455	335	215	95	0	0	
2,100	2,125	260	140	20	0	4,550	4,600	734	726	602	597	584	470	468	464	344	224	104	0	0	
2,125	2,150	265	145	25	0	4,600	4,650	744	736	612	607	593	480	478	473	353	233	113	0	0	
2,150	2,175	269	149	29	0	4,650	4,700	754	746												

"SEC. 103. Inapplicability of certain penalties and additions to tax.

"(a) Penalties for failure to file return: Section 145 (relating to penalties with respect to failure to file returns,

and ending on December 31, 1951. For treatment of taxable years (other than the calendar year 1951) beginning before November 1, 1951, and ending after October 31, 1951, see section 131."

The next amendment was, under the heading "Part II—Corporation income taxes," on page 35, line 3, after the word "Tax", to insert "And Surtax"; in line 4, after "(a)", to strike out "Amendment of section 13" and insert "Increase in Rate of Corporation Normal Tax"; at the top of page 36, to strike out:

"(b) Imposition of tax: There shall be levied, collected, and paid for each taxable year upon the normal-tax net income of every corporation (except a corporation subject to a tax imposed by section 231 (a), supplement G, or supplement Q) a tax of 30 percent of the normal-tax net income."

And in lieu thereof to insert the following:

"(b) Imposition of tax: There shall be levied, collected, and paid for each taxable year upon the normal-tax net income of every corporation (except a corporation subject to a tax imposed by sec. 231 (a), supplement G, or supplement Q)—

"(1) Calendar year 1951: In the case of a taxable year beginning on January 1, 1951, and ending on December 31, 1951, a tax of 26½ percent of the normal-tax net income.

"(2) Taxable years beginning after March 31, 1951, and before January 1, 1954: In the case of taxable years beginning after March 31, 1951, and before January 1, 1954, a tax of 27 percent of the normal-tax net income.

"(3) Taxable years beginning after December 31, 1953: In the case of taxable years beginning after December 31, 1953, a tax of 25 percent of the normal-tax net income."

"(b) Increase in rate of corporation surtax: Section 15 (relating to surtax on corporations) is hereby amended to read as follows:

"SEC. 15. Surtax on corporations.

"(a) Corporation surtax net income: For the purposes of this chapter, the term "corporation surtax net income" means the net income minus the sum of the following credits:

"(1) The credit for dividends received provided in section 26 (b);

"(2) In the case of a public utility, the credit for dividends paid on its preferred stock provided in section 26 (h);

"(3) In the case of a Western Hemisphere trade corporation (as defined in sec. 109), the credit provided in section 26 (i).

"(b) Imposition of tax: There shall be levied, collected, and paid for each taxable year upon the corporation surtax net income of every corporation (except a corporation subject to a tax imposed by section 231 (a), supplement G, or supplement Q)—

"(1) Calendar year 1951: In the case of a taxable year beginning on January 1, 1951, and ending on December 31, 1951, a surtax of 24¼ percent of the amount of the corporation surtax net income in excess of \$25,000.

"(2) Taxable years beginning after March 31, 1951, and before January 1, 1954: In the case of taxable years beginning after March 31, 1951, and before January 1, 1954, a surtax of 25 percent of the amount of the corporation surtax net income in excess of \$25,000.

"(3) Taxable years beginning after December 31, 1953: In the case of taxable years beginning after December 31, 1953, a surtax of 22 percent of the amount of the corporation surtax net income in excess of \$25,000."

The next amendment was, on page 38, after line 13, to strike out:

"(b) Maximum tax: Section 430 (a) (2) (relating to the limitation on the rate of the excess-profits tax) is hereby amended by striking out '62 percent' and inserting in lieu thereof '70 percent'."

And in lieu thereof, to insert the following:

"(c) Maximum tax: Section 430 (a) (2) (relating to the limitation on the rate of the excess-profits tax) is hereby amended as follows:

"(1) By inserting after '(2)' the following: '(A) in the case of taxable years ending before April 1, 1951,'"

"(2) By striking out the period at the end of paragraph (2) and inserting ', or' and by adding after paragraph (2) the following:

"(B) in the case of taxable years beginning on January 1, 1951, and ending on December 31, 1951, an amount equal to 16½ percent of the excess-profits net income for the taxable year, except that in the case of an affiliated group of includible corporations making or required to make a consolidated return for the taxable year under section 141, such amount shall be reduced by an amount which bears the same ratio (but not in excess of 100 percent) to the increase of 2 percent in the surtax imposed by reason of section 141 (c) as the amount of the consolidated excess-profits net income bears to the amount of the consolidated corporation surtax net income, or

"(C) in the case of taxable years beginning after March 31, 1951, an amount equal to 17 percent of the excess-profits net income for the taxable year, except that in the case of an affiliated group of includible corporations making or required to make a consolidated return for the taxable year under section 141, such amount shall be reduced by an amount which bears the same ratio (but not in excess of 100 percent) to the increase of 2 percent in the surtax imposed by reason of section 141 (c) as the amount of the consolidated excess-profits net income bears to the amount of the consolidated corporation surtax net income, or."

The next amendment was, on page 40, after line 3, to strike out:

"(c) Mutual insurance companies other than life or marine:

"(1) Section 207 (a) (1) (relating to normal tax and surtax on mutual insurance companies, other than life or marine) is hereby amended by striking out subparagraphs (A) and (B) and inserting in lieu thereof the following:

"(A) Normal tax: A normal tax of 30 percent of the normal tax net income, or 60 percent of the amount by which the normal tax net income exceeds \$3,000, whichever is the lesser; plus

"(B) Surtax: A surtax of 22 percent of the corporation surtax net income in excess of \$25,000."

"(2) Section 207 (a) (3) (relating to a normal tax and surtax on interinsurers and reciprocal underwriters) is hereby amended by striking out subparagraphs (A) and (B) and inserting in lieu thereof the following:

"(A) Normal tax: A normal tax of 30 percent of the normal tax net income, or 60 percent of the amount by which the normal tax net income exceeds \$50,000, whichever is the lesser; plus

"(B) Surtax: A surtax of 22 percent of the corporation surtax net income in excess of \$25,000, or 33 percent of the amount by which the corporation surtax net income exceeds \$50,000, whichever is the lesser."

"(d) Regulated investment companies: Section 362 (b) (relating to tax on regulated investment companies) is hereby amended by striking out paragraphs (3) and (4) and inserting in lieu thereof the following:

"(3) There shall be levied, collected, and paid for each taxable year upon its supplement Q net income a tax equal to 30 percent of the amount thereof.

"(4) There shall be levied, collected, and paid for each taxable year upon its supplement Q surtax net income a tax equal to 22 percent of the amount thereof in excess of \$25,000."

"(e) Business income of certain section 101 organizations: Section 421 (a) (1) (relating to imposition of tax on business income of certain section 101 organizations) is hereby amended by striking out '25 percent' and inserting in lieu thereof '30 percent'."

"(f) Technical amendments:

"(1) Repeal of section 14: Section 14 (relating to normal tax on special classes of corporations in the case of taxable years beginning before July 1, 1950) is hereby repealed.

"(2) Amendment of section 15: Section 15 (relating to surtax on corporations) is hereby amended to read as follows:

"SEC. 15. Surtax on corporations.

"(a) Corporation surtax net income: For the purpose of this chapter, the term "corporation surtax net income" means the net income minus the sum of the following credits:

"(1) The credit for dividends received provided in section 26 (b);

"(2) In the case of a public utility, the credit for dividends paid on its preferred stock provided in section 26 (h);

"(3) In the case of a western hemisphere trade corporation (as defined in section 109), the credit provided in section 26 (i).

"(b) Imposition of tax: There shall be levied, collected and paid for each taxable year upon the corporation surtax net income of every corporation (except a corporation subject to a tax imposed by section 231 (a), supplement G, or supplement Q) a surtax of 22 percent of the amount of the corporation surtax net income in excess of the surtax exemption provided in section 26 (j)."

And in lieu thereof to insert the following:

"(d) Mutual insurance companies other than life or marine:

"(1) Section 207 (a) (1) (relating to normal tax and surtax on mutual insurance companies, other than life or marine) is hereby amended by striking out subparagraphs (A) and (B) and inserting in lieu thereof the following:

"(A) Taxable years beginning after December 31, 1950, and before April 1, 1951: In the case of taxable years beginning after December 31, 1950, and before April 1, 1951, and ending after March 31, 1951:

"(i) Normal tax: A normal tax on the normal-tax net income, computed at the rate provided in section 13 (b) (1), or 53 percent of the amount by which the normal-tax net income exceeds \$3,000, whichever is the lesser; plus

"(ii) Surtax: A surtax on the corporation surtax net income, computed as provided in section 15 (b) (1).

"(B) Taxable years beginning after March 31, 1951, and before January 1, 1954: In the case of taxable years beginning after March 31, 1951, and before January 1, 1954:

"(i) Normal tax: A normal tax on the normal-tax net income, computed at the rate provided in section 13 (b) (2), or 54 percent of the amount by which the normal-tax net income exceeds \$3,000, whichever is the lesser; plus

"(ii) Surtax: A surtax on the corporation surtax net income, computed as provided in section 15 (b) (2).

"(C) Taxable years beginning after December 31, 1953: In the case of a taxable year beginning after December 31, 1953:

"(i) Normal tax: A normal tax on the normal-tax net income, computed at the rate provided in section 13 (b) (3), or 50 percent of the amount by which the normal-tax net income exceeds \$3,000, whichever is the lesser; plus

"(ii) Surtax: A surtax on the corporation surtax net income, computed as provided in section 15 (b) (3)."

"(2) Section 207 (a) (3) (relating to a normal tax and surtax on interinsurers and reciprocal underwriters) is hereby amended

by striking out subparagraphs (A) and (B) and inserting in lieu thereof the following:

"(A) Taxable years beginning after December 31, 1950, and before April 1, 1951: In the case of taxable years beginning after December 31, 1950, and before April 1, 1951, and ending after March 31, 1951:

"(i) Normal tax: A normal tax on the normal-tax net income, computed at the rate provided in section 13 (b) (1), or 53 percent of the amount by which the normal-tax net income exceeds \$50,000, whichever is the lesser; plus

"(ii) Surtax: A surtax on the corporation surtax net income, computed as provided in section 15 (b) (1), or 36 $\frac{3}{4}$ percent of the amount by which the corporation surtax net income exceeds \$50,000, whichever is the lesser.

"(B) Taxable years beginning after March 31, 1951, and before January 1, 1954:

"(i) Normal tax: A normal tax on the normal-tax net income, computed at the rate provided in section 13 (b) (2), or 54 percent of the amount by which the normal-tax net income exceeds \$50,000, whichever is the lesser; plus

"(ii) Surtax: A surtax on the corporation surtax net income, computed as provided in section 15 (b) (2), or 37 $\frac{1}{2}$ percent of the amount by which the corporation surtax net income exceeds \$50,000, whichever is the lesser.

"(C) Taxable years beginning after December 31, 1953: In the case of a taxable year beginning after December 31, 1953—

"(i) Normal tax: A normal tax on the normal-tax net income computed at the rate provided in section 13 (b) (3), or 50 percent of the amount by which the normal-tax net income exceeds \$50,000, whichever is the lesser; plus

"(ii) Surtax: A surtax on the corporation surtax net income, computed as provided in section 15 (b) (3), or 33 percent of the amount by which the corporation surtax net income exceeds \$50,000, whichever is the lesser.

"(e) Regulated investment companies: Section 362 (b) (relating to tax on regulated investment companies) is hereby amended by striking out paragraphs (3) and (4) and inserting in lieu thereof the following:

"(3) In the case of taxable years beginning after December 31, 1950, and before April 1, 1951, and ending after March 31, 1951, there shall be levied, collected, and paid for each taxable year upon its Supplement Q net income a tax equal to 26 $\frac{1}{2}$ percent of the amount thereof. In the case of taxable years beginning after March 31, 1951, and before January 1, 1954, there shall be levied, collected, and paid for each taxable year upon its Supplement Q net income a tax equal to 27 percent of the amount thereof. In the case of taxable years beginning after December 31, 1953, there shall be levied, collected, and paid for each taxable year upon its Supplement Q net income a tax equal to 25 percent of the amount thereof.

"(4) In the case of taxable years beginning after December 31, 1950, and before April 1, 1951, and ending after March 31, 1951, there shall be levied, collected, and paid for each taxable year upon its Supplement Q surtax net income a tax equal to 24 $\frac{1}{4}$ percent of the amount thereof in excess of \$25,000. In the case of taxable years beginning after March 31, 1951, and before January 1, 1954, there shall be levied, collected, and paid for each taxable year upon its Supplement Q surtax net income a tax equal to 25 percent of the amount thereof in excess of \$25,000. In the case of taxable years beginning after December 31, 1953, there shall be levied, collected, and paid for each taxable year upon its Supplement Q surtax net income a tax equal to 22 percent of the amount thereof in excess of \$25,000."

"(f) Business income of certain section 101 organizations: Section 421 (a) (1) (relating

to imposition of tax on business income of certain section 101 organizations) is hereby amended by inserting before the period at the end thereof the following: "; except that (A) in the case of taxable years beginning before April 1, 1951, and ending after March 31, 1951, the normal tax shall be 26 $\frac{1}{2}$ percent of the Supplement U net income and the surtax shall be 24 $\frac{1}{4}$ percent of the amount of the Supplement U net income in excess of \$25,000, and (B) in the case of taxable years beginning after March 31, 1951, and before January 1, 1954, the normal tax shall be 27 percent of the Supplement U net income and the surtax shall be 25 percent of the amount of the Supplement U net income in excess of \$25,000."

"(g) Technical amendment: Section 14 (relating to normal tax on special classes of corporations in the case of taxable years beginning before July 1, 1950) is hereby repealed."

The next amendment was, on page 49, after line 3, to strike out:

"Sec. 122. Credits of corporations.

"(a) Dividends received credit: Paragraphs (1) and (2) of section 26 (b) (relating to credit for dividends received) are hereby amended to read as follows:

"(1) In general: 85 percent of the amount received as dividends (other than dividends described in par. (2) on the preferred stock of a public utility) from a domestic corporation which is subject to taxation under this chapter; and

"(2) Certain preferred stock: 62 percent of the amount received as dividends on the preferred stock of a public utility which is subject to taxation under this chapter."

"(b) Credit for dividends paid on certain preferred stock: The first sentence of section 26 (h) (1) (relating to amount of credit for dividends paid on certain preferred stock) is hereby amended to read as follows: 'In the case of a public utility, an amount equal to 27 percent of the lesser of (A) the amount of dividends paid during the taxable year on its preferred stock or (B) the adjusted net income for such taxable year minus the credit for dividends received provided in subsection (b) for such year.'

"(c) Western Hemisphere trade corporations: Section 26 (i) (relating to credit of a Western Hemisphere trade corporation) is hereby amended to read as follows:

"(i) Western Hemisphere trade corporations: In the case of a Western Hemisphere trade corporation (as defined in sec. 109), an amount equal to 27 percent of its normal tax net income computed without regard to the credit provided in this subsection."

And in lieu thereof to insert the following:

"Sec. 122. Credits of corporations.

"(a) Dividends received credit: Paragraphs (1) and (2) of section 26 (b) (relating to credit for dividends received) are hereby amended to read as follows:

"(1) In general: 85 percent of the amount received as dividends (other than dividends described in par. (2) on the preferred stock of a public utility) from a domestic corporation which is subject to taxation under this chapter.

"(2) Certain preferred stock:

"(A) Calendar year 1951: In the case of a taxable year beginning on January 1, 1951, and ending on December 31, 1951, 61 percent of the amount received as dividends on the preferred stock of a public utility which is subject to taxation under this chapter and with respect to which the credit provided in section 26 (h) for dividends paid is allowable.

"(B) Taxable years beginning after March 31, 1951, and before January 1, 1954: In the case of taxable years beginning after March 31, 1951, and before January 1, 1954, 62 percent of the amount received as dividends on the preferred stock of a public utility which

is subject to taxation under this chapter and with respect to which the credit provided in section 26 (h) for dividends paid is allowable.

"(C) Taxable years beginning after December 31, 1953: In the case of taxable years beginning after December 31, 1953, 59 percent of the amount received as dividends on the preferred stock of a public utility which is subject to taxation under this chapter and with respect to which the credit provided in section 26 (h) for dividends paid is allowable."

"(b) Credit for dividends paid on certain preferred stock: The first sentence of section 26 (h) (1) (relating to amount of credit for dividends paid on certain preferred stock) is hereby amended to read as follows: 'In the case of a public utility, (A) for a taxable year beginning on January 1, 1951, and ending on December 31, 1951, an amount equal to 28 percent of the lesser of (i) the amount of dividends paid during the taxable year on its preferred stock or (ii) the adjusted net income for such taxable year minus the credit for dividends received provided in subsection (b) for such year, (B) for a taxable year beginning after March 31, 1951, and before January 1, 1954, an amount equal to 27 percent of the lesser of (i) the amount of dividends paid during the taxable year on its preferred stock or (ii) the adjusted net income for such taxable year minus the credit for dividends received provided in subsection (b) for such year, and (C) for a taxable year beginning after December 31, 1953, an amount equal to 30 percent of the lower of (i) the amount of dividends paid during the taxable year on its preferred stock or (ii) the adjusted net income for such taxable year minus the credit for dividends received provided in subsection (b) for such year.'

"(c) Western Hemisphere trade corporations: Section 26 (i) (relating to credit of a Western Hemisphere trade corporation) is hereby amended to read as follows:

"(i) Western Hemisphere trade corporations: In the case of a Western Hemisphere trade corporation (as defined in section 109)—

"(1) Calendar year 1951: In the case of a taxable year beginning on January 1, 1951, and ending on December 31, 1951, an amount equal to 27 $\frac{1}{2}$ percent of its normal-tax net income computed without regard to the credit provided in this subsection.

"(2) Taxable years beginning after March 31, 1951, and before January 1, 1954: In the case of a taxable year beginning after March 31, 1951, and before January 1, 1954, an amount equal to 27 percent of its normal-tax net income computed without regard to the credit provided in this subsection.

"(3) Taxable years beginning after December 31, 1953: In the case of a taxable year beginning after December 31, 1953, an amount equal to 30 percent of its normal-tax net income computed without regard to the credit provided in this subsection."

The next amendment was, on page 53, after line 16, to strike out:

"Sec. 123. Surtax exemptions and certain credits of related corporations.

"(a) Limitation on surtax exemption in the case of related corporations: Section 26 (relating to credits of corporations) is hereby amended by adding at the end thereof the following new subsection:

"(j) Surtax exemption:

"(1) In general: Except in the case of a corporation to which paragraph (2) is applicable for the taxable year, a surtax exemption of \$25,000.

"(2) Related corporations: In the case of a corporation which on December 31 of any year is a member of a controlled group as defined in paragraph (3), a surtax exemption, for the taxable year which includes such date, in an amount equal to \$25,000 divided by the number of corporations in such group

at the close of such date. In lieu of such exemption, a surtax exemption of \$25,000 for the controlled group may be divided (in any manner) by the corporations which at the close of such date are members of such group by making and filing with the Secretary a consent setting forth the portion of the \$25,000 which will be taken by each member as its surtax exemption for its taxable year which includes such date. The consent shall be made and filed at such time and in such manner as the Secretary by regulations may prescribe. If a member of a controlled group has a taxable year which does not include December 31, the surtax exemption for such member for such taxable year shall be an amount equal to \$25,000 divided by the number of corporations in such group at the close of such taxable year.

“(3) Definition of controlled group: For the purposes of paragraph (2), a “controlled group” means:

“(A) Any group of one or more chains of corporations connected through ownership with a common parent corporation if—

“(i) stock possessing at least 95 percent of the voting power of all classes of stock of each of the corporations (except the common parent corporation) is owned directly by one or more of the other corporations; and

“(ii) the common parent corporation owns directly stock possessing at least 95 percent of the voting power of all classes of stock of at least one of the other corporations, excluding, in computing such voting power, stock held by such other corporations.

“(B) Any group of two or more corporations if at least 95 percent of the voting power of all classes of stock of each of the corporations is owned, directly or indirectly, by or for one individual, or is owned, directly or indirectly, by or for not more than five individuals each of whom owns substantially the same proportion of the voting power in any one of such corporations as he owns in each of the other corporations. For the purposes of this subparagraph—

“(i) an individual shall be considered as owning substantially the same proportion of the voting power in any two corporations if, and only if, he could own the same proportion of the voting power in each by increasing by not more than 10 percent his voting power in one of the corporations and decreasing by not more than 10 percent his voting power in the other corporation;

“(ii) stock owned, directly or indirectly, by or for a corporation, partnership, estate, or trust, shall be considered as being owned proportionately by or for its shareholders, partners, or beneficiaries;

“(iii) an individual shall be considered as owning the stock owned, directly or indirectly, by or for his spouse;

“(iv) if an individual owns more than 50 percent of the voting power in any corporation (including the voting power of the stock owned by him upon the application of clauses (ii) and (iii)), such individual shall be considered as owning the stock owned in such corporation, directly or indirectly, by or for his ancestors and lineal descendants;

“(v) stock constructively owned by a person by reason of the application of clause (ii) shall, for the purpose of applying clause (ii), (iii), or (iv), be treated as actually owned by such person, but stock constructively owned by an individual by reason of the application of clause (iii) or (iv) shall not be treated as owned by him for the purpose of applying either such clause in order to make another the constructive owner of such stock; and

“(vi) if stock may be treated as constructively owned by two or more individuals, such stock shall, in any computation to determine the proportionate voting power of such individuals be treated in such computation as constructively owned by the in-

dividual whose constructive ownership of such stock results in the corporation being a member of a controlled group.

If a group of corporations described in subparagraph (B) includes a common parent corporation included in a group described in subparagraph (A), then each member of the group described in subparagraph (A) of which the common parent corporation is a member shall be a member of the group described in subparagraph (B). For the purposes of this paragraph, treasury stock shall not be considered to be voting stock.

“(b) Insurance companies: Section 201 (g) (relating to credits under section 26 allowed life insurance companies) and section 204 (f) (relating to credits under section 26 allowed to insurance companies other than life or mutual) are each amended by adding at the end thereof the following new sentence: ‘In computing the surtax imposed by this section, in the manner provided in section 15 (b), the surtax exemption provided in section 26 (j) shall be allowed.’

“(c) Minimum excess profits credit: The last sentence of section 431 (relating to definition of adjusted excess profits net income) is hereby amended to read as follows: ‘If such sum is less than its surtax exemption provided in section 26 (j) for the taxable year, such sum shall be increased to the amount of its surtax exemption for such year.’”

The next amendment was, on page 58, after line 20, to strike out:

“Sec. 124. Computation of alternative capital gains tax.

“(a) Alternative tax: Section 117 (c) (1) (relating to alternative tax on corporations) is hereby amended by striking out the second paragraph and inserting in lieu thereof the following:

“(A) A partial tax shall first be computed upon the net income reduced by the amount of such excess, at the rates and in the manner as if this subsection had not been enacted.

“(B) There shall then be ascertained an amount equal to 25 percent of such excess. In the case of taxable years to which the defense tax provided in section 16 (c) is applicable, such amount shall be increased by the percentage specified in such section.

“(C) The total tax shall be the partial tax computed under subparagraph (A) plus the amount computed under subparagraph (B).”

“(b) Effective date: The amendment made by subsection (a) shall be applicable only with respect to taxable years ending after August 31, 1951.”

The next amendment was, on page 59, after line 18, to insert a new section, as follows:

“Sec. 123. Filing of corporation returns for taxable years ending after March 1951, and before October 1, 1951.

“In the case of a corporation subject to a tax imposed by chapter 1 of the Internal Revenue Code for a taxable year ending after March 31, 1951, but prior to October 1, 1951, such corporation shall after the date of the enactment of this act and on or before January 15, 1952, make a return for such taxable year with respect to the tax imposed by chapter 1 of the Internal Revenue Code for such taxable year. The return required by this section for such taxable year shall constitute the return for such taxable year for all purposes of the Internal Revenue Code; and no return for such taxable year, with respect to any tax imposed by chapter 1 of such code, filed on or before the date of the enactment of this act shall be considered for any of such purposes as a return for such year. The taxes imposed by chapter 1 of such code (determined with the amendments made by this act) for such

taxable year shall be paid on January 15, 1952, in lieu of the time prescribed in section 56 (a) of such code. All payments with respect to any tax for such taxable year imposed by chapter 1 of such code under the law in effect prior to the enactment of this act, to the extent that such payments have not been credited or refunded, shall be deemed payments made at the time of the filing of the return required by this section on account of the tax for such taxable year under chapter 1 determined with the amendments made by this act.”

The next amendment was, on page 60, after line 22, to strike out:

“Sec. 125. Effective date.

“Except as provided in section 124, the amendments made by this part shall be applicable only with respect to taxable years beginning after December 31, 1950. For treatment of taxable years beginning in 1950 and ending in 1951, see part III of this title.”

And in lieu thereof, to insert the following:

“Sec. 124. Effective date.

“The amendments made by this part shall be applicable only with respect to taxable years beginning after March 31, 1951, and to taxable years beginning on January 1, 1951, and ending on December 31, 1951, except that the amendments made to sections 207, 362, and 421 of the Internal Revenue Code shall be applicable to taxable years beginning after December 31, 1950, and ending after March 31, 1951. In the case of an insurance company subject to the tax imposed by section 207, the provisions of section 26 (b) of such code applicable to the calendar year 1951 shall be applicable to a taxable year beginning after December 31, 1950, and before April 1, 1951, and ending after March 31, 1951. For treatment of taxable years (other than the calendar year 1951) beginning before April 1, 1951, and ending after March 31, 1951, see section 131.”

The next amendment was, under the subhead “Part III—Fiscal year taxpayers,” on page 61, after line 21, to strike out:

“(a) Amendment of section 108: Section 108 is hereby amended by striking out paragraph (2) of subsection (f) and inserting in lieu thereof the following:

“(2) that portion of a tentative tax consisting of—

“(A) A tentative normal tax of 25 percent of the normal tax net income, plus

“(B) a tentative surtax of 20 percent of the surtax net income in excess of \$25,000, which the number of days in such taxable year after June 30, 1950, and before January 1, 1951, bears to the total number of days in such taxable year, plus (if the taxable year ends in 1951)

“(3) that portion of a tentative tax consisting of—

“(A) a tentative normal tax of 30 percent of the normal tax net income, plus

“(B) a tentative surtax of 20 percent of the surtax net income in excess of \$25,000, which the number of days in such taxable year after December 31, 1950, bears to the total number of days in such taxable year.

In computing for the purposes of paragraph (2) the normal-tax net income and the corporation surtax net income, the credits provided in section 26 applicable to taxable years beginning on July 1, 1950, shall be allowed in the manner and to the extent provided in sections 13 and 15 applicable to years beginning on such date, except that such credits shall be applied without regard to the amendments made to section 26 by title II of the Excess Profits Tax Act of 1950. In computing for the purposes of paragraph (3) the normal-tax net income and the corporation surtax net income, the credits provided in section 26 applicable to taxable years

beginning on January 1, 1951, shall be allowed in the manner and to the extent provided in sections 13 and 15 applicable to years beginning on such date.

"(g) Taxable years of corporations beginning after June 30, 1950, and before 1951, and ending in 1951: In the case of a taxable year of a corporation beginning after June 30, 1950, and before January 1, 1951, and ending after December 31, 1950, the tax imposed by sections 13 and 15 shall be an amount equal to the sum of—

"(1) that portion of a tentative tax, computed under the provisions of sections 13 and 15 applicable to such taxable year, which the number of days in such taxable year prior to January 1, 1951, bears to the total number of days in such taxable year, plus

"(2) that portion of a tentative tax, computed under the provisions of sections 13 and 15 applicable to years beginning on January 1, 1951, as if such provisions were applicable to such taxable year, which the number of days in such taxable year after December 31, 1950, bears to the total number of days in such taxable year. For the purposes of this paragraph a surtax exemption of \$25,000 shall be allowed in lieu of the exemption provided in section 26 (j).

"(h) Certain taxable years of individuals beginning before September 1, 1951, and ending after August 31, 1951: In the case of a taxable year (other than one beginning on January 1, 1951, and ending on December 31, 1951) of a taxpayer, other than a corporation, beginning before September 1, 1951, and ending after August 31, 1951, the tax imposed by sections 11 and 12, section 400, or section 421 (a) (2), shall be an amount equal to the sum of—

"(1) that portion of a tentative tax, computed under the provisions of sections 11 and 12, or section 400, applicable to taxable years beginning on October 1, 1950, which the number of calendar months in such taxable year prior to September 1, 1951, bears to the total number of calendar months in such taxable year, plus

"(2) that portion of a tentative tax, computed under the provisions of sections 11 and 12, or section 400, applicable to years beginning on September 1, 1951, as if such provisions (other than the provisions relating to head of household) were applicable to such taxable year, which the number of calendar months in such taxable year after August 31, 1951, bears to the total number of calendar months in such taxable year.

For the purposes of this subsection, a calendar month only part of which falls within the taxable year (A) shall be disregarded if less than 15 days of such month are included in such taxable year, and (B) shall be included as a calendar month within the taxable year if more than 14 days of such month fall within the taxable year. This subsection shall not apply in the case of a trust described in section 421 (b) (2) if the taxable year of such trust began before January 1, 1951."

And in lieu thereof, to insert the following:

"(a) Amendment of section 108: Section 108 is hereby amended by striking out paragraph (2) of subsection (f) and inserting in lieu thereof the following:

"(2) that portion of a tentative tax consisting of—

"(A) a tentative normal tax of 25 percent of the normal-tax net income, plus

"(B) a tentative surtax of 20 percent of the surtax net income in excess of \$25,000,

which the number of days in such taxable year after June 30, 1950, and before April 1, 1951, bears to the total number of days in such taxable year, plus (if the taxable year ends after March 31, 1951)

"(3) that portion of a tentative tax consisting of—

"(A) a tentative normal tax of 27 percent of the normal-tax net income, plus

"(B) a tentative surtax of 23 percent of the surtax net income in excess of \$25,000,

which the number of days in such taxable year after March 31, 1951, bears to the total number of days in such taxable year.

In computing for the purposes of paragraph (2) the normal-tax net income and the corporation surtax net income, the credits provided in section 26 applicable to taxable years beginning on July 1, 1950, shall be allowed in the manner and to the extent provided in sections 13 and 15 applicable to years beginning on such date, except that such credits shall be applied without regard to the amendments made to section 26 by title II of the Excess Profits Tax Act of 1950. In computing for the purposes of paragraph (3) the normal-tax net income and the corporation surtax net income, the credits provided in section 26 applicable to taxable years beginning on April 1, 1951, shall be allowed in the manner and to the extent provided in sections 13 and 15 applicable to years beginning on such date.

"(g) Certain taxable years of corporations beginning after June 30, 1950, and before April 1, 1951: In the case of a taxable year (other than one beginning on January 1, 1951, and ending on December 31, 1951) of a corporation beginning after June 30, 1950, and before April 1, 1951, and ending after March 31, 1951, the tax imposed by sections 13 and 15 shall be an amount equal to the sum of—

"(1) that portion of a tentative tax, computed under the provisions of sections 13 and 15 applicable to such taxable year, which the number of days in such taxable year prior to April 1, 1951, bears to the total number of days in such taxable year, plus

"(2) that portion of a tentative tax, computed under the provisions of sections 13 and 15 applicable to years beginning on April 1, 1951, as if such provisions were applicable to such taxable year, which the number of days in such taxable year after March 31, 1951, bears to the total number of days in such taxable year.

"(h) Certain taxable years of individuals beginning before November 1, 1951, and ending after October 31, 1951: In the case of a taxable year (other than one beginning on January 1, 1951, and ending on December 31, 1951) of a taxpayer, other than a corporation, beginning before November 1, 1951, and ending after October 31, 1951, the tax imposed by sections 11 and 12, section 400, or section 421 (a) (2), shall be an amount equal to the sum of—

"(1) that portion of a tentative tax, computed under the provisions of sections 11 and 12, section 400, or section 421 (a) (2), applicable to such year, which the number of calendar months in such taxable year prior to November 1, 1951, bears to the total number of calendar months in such taxable year, plus

"(2) that portion of a tentative tax, computed under the provisions of sections 11 and 12, section 400, or section 421 (a) (2), applicable to years beginning on November 1, 1951, as if such provisions (other than the provisions relating to head of household) were applicable to such taxable year, which the number of calendar months in such taxable year after October 31, 1951, bears to the total number of calendar months in such taxable year.

This subsection shall not apply in the case of a trust described in section 421 (b) (2) if the taxable year of such trust began before January 1, 1951.

"(i) Definition of calendar month: For the purposes of this section, a calendar month only part of which falls within a tax-

able year (1) shall be disregarded if less than 15 days of such month are included in such taxable year, and (2) shall be included as a calendar month within the taxable year if more than 14 days of such month fall within the taxable year.

"(j) Taxable years of individuals beginning in 1953 and ending in 1954: In the case of a taxable year of a taxpayer, other than a corporation, beginning before January 1, 1954, and ending after December 31, 1953, the tax imposed by sections 11 and 12, section 400, or section 421 (a) (2), shall be an amount equal to the sum of—

"(1) that portion of a tentative tax, computed under the provisions of sections 11 and 12, section 400, or section 421 (a) (2), applicable to years beginning on January 1, 1953, which the number of calendar months in such taxable year prior to January 1, 1954, bears to the total number of calendar months in such taxable year, plus

"(2) that portion of a tentative tax, computed under the provisions of sections 11 and 12, section 400, or section 421 (a) (2), applicable to years beginning on January 1, 1954, as if such provisions were applicable to such taxable year, which the number of calendar months in such taxable year after December 31, 1953, bears to the total number of calendar months in such taxable year.

"(k) Taxable years of corporations beginning in 1953 and ending in 1954: In the case of a taxable year of a corporation beginning before January 1, 1954, and ending after December 31, 1953, the tax imposed by sections 13 and 15, or section 421 (a) (1), shall be an amount equal to the sum of—

"(1) that portion of a tentative tax, computed under the provisions of sections 13 and 15, or section 421 (a) (1), applicable to years beginning on January 1, 1953, which the number of days in such taxable year prior to January 1, 1954, bears to the total number of days in such taxable year, plus

"(2) that portion of a tentative tax, computed under the provisions of sections 13 and 15, or section 421 (a) (1), applicable to years beginning on January 1, 1954, as if such provisions were applicable to such taxable year, which the number of days in such taxable year after December 31, 1953, bears to the total number of days in such taxable year."

On page 70, line 22, after the word "Before", to strike out "January" and insert "April"; in line 25, after the word "before", to strike out "January" and insert "April"; on page 71, line 7, after the word "After", to strike out "December 31, 1950" and insert "March 31, 1951"; in line 9, after the word "year", to strike out "beginning before January 1, 1951, and ending after December 31, 1950" and insert "(other than a taxable year beginning on January 1, 1951, and ending on December 31, 1951) beginning before April 1, 1951, and ending after March 31, 1951"; in line 19, after the word "before", to strike out "January" and insert "April"; in line 24, after the word "on", to strike out "January" and insert "April"; on page 72, line 1, after the word "after", to strike out "December 31, 1950" and insert "March 31, 1951"; and in line 9, after the word "thereof", to strike out "(1)" and insert "(1)."

The next amendment was, under the heading "Title II—Withholding of tax at source," on page 72, after line 10, to strike out:

"PART I—WITHHOLDING OF TAX AT SOURCE ON DIVIDENDS, INTEREST, AND ROYALTIES

"SEC. 201. Collection of income tax at source on dividends, interest, and royalties.

"Subtitle B of the Internal Revenue Code is hereby amended by inserting before chapter 7 the following new chapter:

"CHAPTER 6—COLLECTION OF INCOME TAX AT SOURCE ON DIVIDENDS, INTEREST, AND ROYALTIES

"SUBCHAPTER A—DIVIDENDS AND INTEREST

"SEC. 1200. Definitions.

"As used in this chapter—

"(a) Dividend: The term "dividend" means—

"(1) any distribution by a corporation which is a dividend as defined in section 115 (a); and

"(2) a payment made by a stockbroker to any person as a substitute for a dividend (as defined in sec. 115 (a)) upon which a tax is required to be deducted and withheld under this subchapter.

"(b) Interest: The term "interest" means—

"(1) interest on all bonds, debentures, notes, certificates, or other evidences of indebtedness, issued by any corporation, with interest coupons or in registered form;

"(2) interest on deposits with stockbrokers;

"(3) interest on amounts held by an insurance company under an agreement to pay interest thereon; and

"(4) interest on the overpayment of any internal revenue tax, except income or excess profits taxes imposed upon corporations.

"SEC. 1201. Income tax collected at source.

"(a) Requirement of withholding: Every person making payment after December 31, 1951, of a dividend or interest shall deduct and withhold upon such dividend or interest a tax equal to 20 percent of the amount thereof. If the withholding agent is unable to determine the person to whom the dividend or interest is payable, such tax shall be deducted and withheld at the time payment thereof would be made if such person were known. For certain exemptions from withholding, see section 1202.

"(b) Withholding where amount of dividend is unknown: If the withholding agent is unable to determine the portion of a distribution which is a dividend, the tax required to be deducted and withheld under this subchapter shall be computed on the entire amount of the distribution.

"(c) Indemnification of withholding agent: A withholding agent shall not be liable, except as provided in section 1203, to any person for the amount of any tax required to be deducted and withheld under this subchapter.

"(d) Credit for tax withheld: For credit, against the income tax of the recipient of the income, of amounts required to be deducted and withheld under this subchapter see section 35.

"SEC. 1202. Exemptions from withholding.

"The provisions of this chapter shall not apply to:

"(a) A dividend paid in the stock or rights to acquire the stock of the distributing corporation, whether or not the recipient of such stock or rights had an option to be paid in money, or other property, in lieu of such stock or rights.

"(b) Distributions (other than capital gain dividends described in section 362 (b) (7)) to shareholders which are treated under chapter 1 as amounts received upon the sale or exchange of property, or distributions with respect to which gain or loss is not recognized under chapter 1 to the shareholders.

"(c) Any amount which is includible in gross income as a taxable dividend under the provisions of section 112 (c) (2) (relating to certain distributions made in pursuance of a plan of reorganization), section 115 (g) (relating to redemptions of stock), or section

371 (e) (2) (relating to certain distributions pursuant to the order of the Securities and Exchange Commission).

"(d) A dividend paid by a Federal reserve bank, Federal land bank, Federal home loan bank, Central Bank for Cooperatives, or Bank for Cooperatives.

"(e) Any interest which, irrespective of the person to whom payable, is wholly exempt from the tax imposed by chapter 1.

"(f) Dividends or interest paid by a corporation to another corporation if both corporations are members of the same affiliated group which filed a consolidated return under chapter 1 for the preceding taxable year of the payor corporation.

"(g) Dividends or interest paid by a corporation to one or more (1) governments, (2) political subdivisions thereof, (3) international organizations, or (4) wholly owned instrumentalities or agencies of the foregoing, if the entire class of stock in respect of which such dividend is paid, or the entire class of obligations in respect of which such interest is paid, is owned by one or more of such governments, subdivisions, organizations, instrumentalities, or agencies.

"(h) Interest on equipment trust certificates.

"(i) Dividends or interest paid by a foreign corporation, a nonresident alien individual, any partnership not engaged in trade or business within the United States and composed in whole or in part of nonresident aliens, or by an international organization.

"(j) (1) Any payment of a dividend or interest (except coupon bond interest) to (A) a foreign corporation not engaged in trade or business within the United States, (B) a nonresident alien individual, (C) any partnership not engaged in trade or business within the United States and composed in whole or in part of nonresident aliens, or (D) any foreign government or international organization.

"(2) Any payment of coupon bond interest to a person described in paragraph (1) of this subsection, but only if a certificate filed (in such form and manner, and at such time, as the Secretary may by regulations prescribe) with the withholding agent discloses that the recipient of such payment is a person described in paragraph (1).

"(k) Any payment upon which the withholding agent is required to deduct and withhold a tax under section 143 (a) (relating to tax-free covenant bonds, etc.) determined without regard to the provisions of paragraph (2) of such section.

"(l) Interest on an obligation of a corporation, issued before January 1, 1951, containing a contract or provision by which the obligor agrees to pay the interest without deduction for any tax which the obligor may be required to pay thereon or to retain therefrom under any law of the United States.

"(m) Dividends paid pursuant to the terms of a lease of property entered into prior to January 1, 1951, if under such lease the shareholders of the lessor corporation are entitled to such dividends without deduction for any tax which any law of the United States might require to be deducted and withheld upon the payment of dividends.

"(n) Amounts (whether or not designed as dividends) paid by a mutual savings bank, saving and loan association, building and loan association, cooperative bank, homestead association, credit union, or any similar organization, in respect of withdrawable or repurchasable shares, investment certificates, or deposits.

"SEC. 1203. Returns and payment.

"(a) In general: Every person required under this subchapter to deduct and with-

hold any tax shall make a return of such tax and shall pay such tax, at such time, for such period, and in such manner as the Secretary may by regulations prescribe, by making a return of the total amount of dividends and interest with respect to which tax is required to be deducted and withheld by such person under this subchapter for such period and paying a tax, for which such person shall be liable, in an amount equal to 20 percentum of such total.

"(b) Adjustment of tax: If more or less than the correct amount of tax due for any period under subsection (a) is paid with respect to such period, proper adjustments with respect to the tax shall be made, without interest, in such manner and at such times as may be prescribed by regulations made under this subchapter.

"SEC. 1204. Credit for regulated investment companies and personal holding companies

"In the case of any withholding agent which is a regulated investment company as defined in section 361 or a personal holding company as defined in section 501, the amount required to be deducted and withheld as tax under this chapter with respect to dividends and interest received by it during a taxable year shall be allowed, under regulations prescribed by the Secretary, as a credit against (but not in excess of) the tax for which such withholding agent is liable under section 1203 (a) in respect of dividends and interest paid by it during such year. For the purposes of this section a dividend shall be considered as having been paid within a taxable year (1) in the case of a regulated investment company, if treated as paid during such taxable year under section 362 (b) (8), or (2) in the case of a personal holding company, if claimed under section 504 (c), in computing undistributed subchapter A net income, in the return for such year.

"SUBCHAPTER B—ROYALTIES

"SEC. 1220. Definition of royalty.

"As used in this chapter, the term "royalty" means—

"(a) any rent or royalty in respect of mines, oil and gas wells, and other natural deposits, including any delay rental and any minimum royalty, whether or not measured by production or by a share of gross or net income therefrom, and any payment representing a share of the gross or net income derived from the extraction and sale of any natural deposit, but only if the recipient of such rent, royalty, or payment is not personally obligated to pay a proportionate share of development or operating expenses. For the purposes of this chapter, if a royalty, as defined in the preceding sentence, is paid in kind, such payment shall not constitute payment of a royalty, but if the mineral, oil, gas, or other natural deposit so received in kind is sold by or on behalf of the recipient to the producer or under a division order, the purchaser shall be considered as making payment of the royalty in an amount equal to the purchase price;

"(b) any payment, however designated, made by a corporation for the privilege of using any patent, pending application for a patent, copyright, secret process or formula, trade mark, or trade brand, including any payments made by an assignee or an exclusive licensee thereof, if measure by the use of a patent, pending application for a patent, copyright, secret process or formula, trade mark, or trade brand, or if payable over a period substantially coterminous with the period of the payor's right to use such property, but not including any payments in re-

spect of copyrights made to an organization to which subsection (c) is applicable; and

"(c) any payment made by an organization to its members in respect of the use of their copyrights, if such organization is authorized to license the use of such copyrights and has control of the receipt, allocation, and distribution of the payments made for such use.

"SEC. 1221. Income tax collected at source

"(a) Requirement of withholding: Every person making payment after December 31, 1951, of a royalty shall deduct and withhold upon such royalty a tax equal to 20 per cent of the amount thereof. If the withholding agent is unable to determine the person to whom the royalty is payable, such tax shall be deducted and withheld at the time payment thereof would be made if such person were known. For certain exemptions from withholding see section 1222.

"(b) Tax paid by recipient: If the withholding agent, in violation of the provisions of this subchapter, fails to deduct and withhold the tax under this subchapter, and thereafter the tax against which such tax may be credited is paid, the tax so required to be deducted and withheld shall not be collected from the withholding agent, but this subsection shall in no case relieve the withholding agent from liability for any penalties or additions to the tax otherwise applicable in respect of such failure to deduct and withhold.

"(c) Liability for tax: The withholding agent shall be liable for the payment of the tax required to be deducted and withheld under this subchapter, and shall not be liable to any person for the amount of any such payment.

"(d) Refunds and credits:

"(1) Withholding agent: Where there has been an overpayment of tax under this subchapter, refund or credit shall be made to the withholding agent only to the extent that the amount of such overpayment was not deducted and withheld under this subchapter by the withholding agent.

"(2) Recipient: For credit, against the income tax of the recipient of the income, of amounts deducted and withheld under this subchapter, see section 35.

"SEC. 1222. Exemption from withholding

"The provisions of this chapter shall not apply to—

"(a) Royalties paid to a corporation or to a government or political subdivision thereof.

"(b) Royalties paid by a foreign corporation, a nonresident alien individual, a partnership not engaged in trade or business within the United States and composed in whole or in part of nonresident aliens, or an international organization.

"(c) Royalties paid to (1) a nonresident alien individual, (2) a partnership not engaged in trade or business within the United States and composed in whole or in part of nonresident aliens, or (3) an international organization.

"SEC. 1223. Returns and payment

"(a) In general: Every person required under this subchapter to deduct and withhold any tax shall make a return of such tax and shall pay such tax, at such time, for such period, and in such manner as the Secretary may by regulations prescribe.

"(b) Adjustment of tax: If more or less than the correct amount of tax imposed by this subchapter is paid with respect to any payment of royalties, proper adjustments,

with respect both to the tax and the amount to be deducted, shall be made, without interest, in such manner and at such times as may be prescribed by regulations made under this subchapter.

"SEC. 1224. Receipts

"(a) Requirement: Every person required under this subchapter to deduct and withhold tax on a royalty, shall, not later than January 31 of the year succeeding the calendar year in which the royalty is paid, furnish to the payee of the royalty a written statement showing the amount of the royalties paid to such payee during such calendar year, and the amount of tax deducted and withheld under this subchapter in respect of such royalties.

"(b) Statements to constitute information returns: The statements required to be furnished by this section in respect of any royalty shall be furnished at such other times, shall contain such other information, and shall be in such form as the Secretary may by regulations prescribe. A duplicate of such statement if made and filed in accordance with regulations prescribed by the Secretary shall constitute the return required to be made in respect of such royalties under section 147.

"(c) Extension of time: The Secretary, under regulations prescribed by him, may grant to any person a reasonable extension of time (not in excess of 30 days) with respect to the statements required to be furnished by such person under this section.

"SEC. 1225. Penalties.

"(a) Criminal penalty: In lieu of any other penalty provided by law (except the penalty provided by subsection (b) of this section), any person required under the provisions of section 1224 to furnish a statement who willfully furnishes a false or fraudulent statement, or who willfully fails to furnish a statement in the manner, at the time, and showing the information required under section 1224, or regulations prescribed thereunder, shall for each such offense, upon conviction thereof, be fined not more than \$1,000, or imprisoned for not more than 1 year, or both.

"(b) Civil penalty: In addition to the penalty provided by subsection (a) of this section, any person required under the provisions of section 1224 to furnish a statement who willfully furnishes a false or fraudulent statement, or who willfully fails to furnish a statement in the manner, at the time, and showing the information required under section 1224, or regulations prescribed thereunder, shall for each such offense be subject to a civil penalty of not more than \$50.

"SUBCHAPTER C—GENERAL PROVISIONS

"SEC. 1230. Definitions.

"As used in this chapter—

"(a) Taxable year: The term "taxable year" shall have the same meaning as when used in chapter 1.

"(b) Person: The term "person" includes any government or political subdivision, or agency or instrumentality thereof.

"(c) Nonresident alien: The term "nonresident alien individual" includes an alien resident of Puerto Rico.

"SEC. 1231. Nondeductibility of tax in computing net income.

"Any tax deducted and withheld under this chapter shall not be allowed as a deduction in computing net income for the purpose of any tax on income imposed by act of Congress.

"SEC. 1232. Return and payment by governmental payor.

"If the person referred to in section 1203 (a) or 1223 (a) is the United States, or a State, Territory, or political subdivision thereof, or the District of Columbia, or any agency or instrumentality of any one or more of the foregoing, the return and payment required by such sections shall be made by any officer or employee of the United States, or of such State, Territory, or political subdivision, or of the District of Columbia, or of such agency or instrumentality, as the case may be, having control of the payment of the dividend, interest, or royalty, or appropriately designated for that purpose.

"SEC. 1233. Tax-exempt organizations—refund.

"In the case of a person which is exempt from the tax imposed by chapter 1, if the amount required to be deducted and withheld as tax under this chapter with respect to dividends and interest received by it during any calendar quarter, and the amount deducted and withheld as tax under this chapter with respect to royalties received by it during such calendar quarter, exceed the credit claimed by and allowed to such person under section 1637 for such quarter, the excess shall be immediately refunded or credited to such person as an overpayment of the tax imposed by this chapter, but only if claim therefor is filed (or, if no claim is filed, if credit or refund is made) after the close of such calendar quarter and on or before March 15 of the fourth calendar year beginning after the close of such calendar quarter. No interest shall be allowed or paid with respect to any such refund or credit for any period prior to the date on which claim for such refund or credit is filed or prior to March 16 of the calendar year succeeding the close of the calendar quarter in respect of which such refund or credit is claimed, whichever date is the later.

"SEC. 1234. Failure to file returns.

"In case of a failure to make and file any return required under this chapter within the time prescribed by law or prescribed by the Secretary in pursuance of law, unless it is shown that such failure is due to reasonable cause and not to willful neglect, the addition to the tax or taxes required to be shown on such return shall not be less than \$5.

"SEC. 1235. Other laws applicable.

"All provisions of law, including penalties, applicable with respect to any tax imposed by section 2700, and the provisions of section 3661, shall, insofar as applicable and not inconsistent with the provisions of this chapter, be applicable with respect to the tax under this chapter."

"SEC. 202. Credit for tax withheld.

"Section 35 (relating to credit against income tax) is hereby amended as follows:

"(1) by striking from the heading thereof the words 'on wages';

"(2) by inserting at the beginning of the first paragraph thereof the following heading: '(a) Credit for tax withheld on wages.—'; and

"(3) by inserting at the end thereof the following new subsection:

"(b) Credit for tax withheld on dividends, interest, and royalties: Under regulations prescribed by the Secretary—

"(1) In general: The amount required to be deducted and withheld as tax under chapter 6 upon any payment of a dividend

or interest, and the amount deducted and withheld as tax under such chapter upon any payment of a royalty, shall be allowed as a credit, to the recipient of the income, against the tax imposed by this chapter for the taxable year in which the dividend, interest, or royalty is received.

"(2) Partnerships, trusts, and estates: If the recipient of the dividend, interest, or royalty is a partnership or a common trust fund, then the credit shall not be allowed to such recipient, but the members of the partnership, or the participants in the common trust fund, as the case may be, shall be allowed their proportionate share of such credit. If the recipient is an estate or trust, and if any legatee, heir, or beneficiary subject to the tax imposed by this chapter is required to include a portion of such dividend, interest, or royalty in computing his net income, such legatee, heir, or beneficiary shall be allowed such portion of the credit as is properly allocable to him on the basis of the income allocable to him under section 162 for the taxable year of the estate or trust, and such portion of the credit shall not be allowed to the estate or trust.

"(3) Regulated investment companies and personal holding companies: In the case of a regulated investment company or a personal holding company, the credit provided in paragraph (1) shall be reduced by the amount of credit allowed such company under section 1204.

"(4) Tax exempt organizations: The credit provided by this subsection shall not be allowed to any recipient which is exempt from income tax. For credit against the liability of such a recipient in respect of the employment taxes imposed by subchapter A and subchapter D of chapter 9, see section 1637. For refund under chapter 6 in the case of such a recipient, see section 1233.

"SEC. 203. Credits in case of organizations exempt from tax.

"Subchapter E of chapter 9 (relating to employment taxes) is hereby amended by adding after section 1636 the following new section:

"SEC. 1637. Special credit in case of organizations exempt from income tax.

"In the case of any person (including any government or political subdivision, agency, or instrumentality thereof) which is exempt from the tax imposed by chapter 1, the amount required to be deducted and withheld as tax under chapter 6 with respect to dividends and interest received by it during any calendar quarter, and the amount deducted and withheld as tax under such chapter with respect to royalties received by it during such calendar quarter, shall be allowed, under regulations prescribed by the Secretary, as a credit against (but not in excess of) the amount shown on the return of such person as its liability (after the adjustments, if any, provided for in sections 1401 (c) and 1411) for such quarter in respect of the taxes imposed by subchapter A and subchapter D of this chapter. Such credit shall be allowed only if claim therefor is made, in accordance with such regulations, at the time of the filing of the return under subchapter A and subchapter D for such quarter. For refund under chapter 6, see section 1233.

"SEC. 204. Technical amendment.

"(a) Tax computed by collector. Section 51 (f) (relating to tax computed by collector) is hereby amended to read as follows:

"Tax computed by collector.

"(1) Return requirements: An individual entitled to elect to pay the tax imposed by supplement T whose gross income is less than \$5,000 and is entirely from one or more of the following sources: wages as defined in section 1621 (a), or dividends (other than a capital gain dividend as defined in section 362 (b) (7) or interest on which tax is required to be deducted and withheld under chapter 6, shall at his election be relieved, by using the form prescribed as the form for the return for the purposes of this subsection, from showing on the return the tax imposed by this chapter. In such case the tax shall be computed by the collector.

"(2) Result of computation: After the collector has computed the tax, he shall mail to the taxpayer a notice stating the amount determined by the collector as payable and making demand therefor.

"(3) Regulations: The Secretary shall prescribe regulations for carrying out this subsection, and such regulations may provide for the application of the rules of this subsection to cases where the gross income includes items other than those enumerated in paragraph (1) if the gross income from such other sources is not more than \$200, and to cases where the gross income is \$5,000 or more but not more than \$5,200. Such regulations shall provide for the application of this subsection in the case of husband and wife, including provisions determining when a joint return under this subsection may be permitted or required and what constitutes a joint return, whether the liability shall be joint and several, and whether one spouse may make return under this subsection and the other without regard to this subsection.

"Method of election: The election to have the benefits of this subsection shall be made by making returns on the form prescribed as the form for the return for the purposes of this subsection. An election so made shall constitute an election to pay the tax imposed by supplement T.

"(b) Requirement of declaration of estimated tax: Section 58 (a) (relating to declaration of estimated tax) is hereby amended to read as follows:

"(a) Requirement of declaration: Every individual (other than an estate or trust and other than a nonresident alien with respect to whose wages, as defined in section 1621 (a), withholding under subchapter D of chapter 9 is not made applicable, but including every alien individual who is a resident of Puerto Rico during the entire taxable year) shall, at the time prescribed in subsection (d), make a declaration of his estimated tax for the taxable year if—

"(1) his gross income from wages (as defined in section 1621) and from dividends, interest, and royalties, as defined in chapter 6, upon which a tax is required to be deducted and withheld under such chapter, can reasonably be expected to exceed the sum of \$4,500 plus \$600 with respect to each exemption provided in section 25 (b); or

"(2) his gross income from sources other than wages (as defined in section 1621) and other than dividends, interest, and royalties, as defined in chapter 6, upon which a tax is required to be deducted and withheld under such chapter, can reasonably be expected to exceed \$100 for the taxable year and his gross income to be \$600 or more.

"(c) Credit under section 143: Section 143 relating to withholding of tax at source) is hereby amended by adding at the end thereof the following new subsection:

"(1) Credit for tax withheld at source. Where any person is required to deduct and withhold a tax under subsection (b) on an

amount on which a tax was required to be deducted and withheld under subchapter A of chapter 6, or on an amount on which a tax was deducted and withheld under subchapter B of such chapter, such person shall deduct and withhold only the excess of—

"(1) the amount which would be required to be deducted and withheld under subsection (b) but for the application of chapter 6, over

"(2) The amount required to be deducted and withheld under subchapter A of chapter 6, or the amount deducted and withheld under subchapter B of such chapter, whichever is applicable.

"(d) Credit under section 144: Section 144 (relating to payment of corporation income tax at source) is hereby amended by striking out the period at the end thereof and adding in lieu thereof the following: "Provided further, That, where any person is required under this section to deduct and withhold a tax on an amount on which a tax was required to be deducted and withheld under subchapter A of chapter 6, or on an amount on which a tax was deducted and withheld under subchapter B of such chapter, such person shall deduct and withhold only the excess of—

"(1) the amount which would be required to be deducted and withheld under this section but for the application of chapter 6, over

"(2) the amount required to be deducted and withheld under subchapter A of chapter 6, or the amount deducted and withheld under subchapter B of such chapter, whichever is applicable."

"(e) Information at source: Subsections (a) and (b) of section 147 (relating to information at source) are hereby amended to read as follows:

"(a) Payments of rent, salaries, interest, etc.: All persons, in whatever capacity acting, including lessees or mortgagors of real or personal property, fiduciaries, and employers, making payment to another person, of—

"(1) rent, salaries, wages, premiums, annuities, compensations, remunerations, emoluments, or other fixed or determinable gains, profits, and income (other than payments described in section 148 (a) or 149), of \$600 or more in any taxable year, or

"(2) interest, upon which tax is required to be deducted and withheld under chapter 6, of \$300 or more in any taxable year, or

"(3) Interest, upon which tax is required to be deducted and withheld under chapter 6, of \$100 or more in any taxable year,

or, in the case of such payments made by the United States, the officers or employees of the United States having information as to such payments and required to make returns in regard thereto by the regulations hereinafter provided for, shall render a true and accurate return to the Secretary, under such regulations and in such form and manner and to such extent as may be prescribed by him, setting forth the amount of such gains, profits, and income, and the name and address of the recipient of such payment.

"(b) Returns regardless of amount of payment: Such returns may be required, regardless of amounts, (1) in the case of payments of interest, and (2) in the case of collections of items (not payable in the United States) of interest upon the bonds of foreign countries and interest upon the bonds of and dividends from foreign corporations by persons undertaking as a matter of business or for profit the collection of foreign payments of such interest or dividends by means of coupons, checks, or bills

of exchange. This subsection shall not apply to payments of interest (other than coupon bond interest) upon which tax is required to be deducted and withheld under chapter 6."

"(f) Information by corporations: Section 148 (a) (relating to information by corporations in the case of dividend payments) is hereby amended by inserting a comma in lieu of the period at the end thereof and adding the following: 'except that if the amount of dividends paid to any shareholder during a calendar year is less than \$300 and tax is required to be deducted and withheld under chapter 6 upon the entire amount of such dividends, no such return shall be required with respect to such shareholder for such calendar year.'

"(g) Clerical amendment: Section 169 (b) (relating to taxation of common trust funds) is hereby amended by striking out 'or chapter 6' and by striking out 'chapters' and inserting in lieu thereof 'chapter'.

"(h) Amount of credit considered as payment: Section 322 (a) (2) (relating to refunds and credits) is hereby amended to read as follows:

"(2) Treatment of credits: The amount of credit provided in section 35 against the tax for any taxable year shall, to the extent thereof, be considered as payment of the tax for such year, whether or not the withholding agent has paid to the collector the amount of the tax deducted and withheld at the source under subchapter D of chapter 9 or subchapter B of chapter 6 or the amount of tax required to be deducted and withheld at source under subchapter A of chapter 6."

"(i) Special period of limitations for small refunds on tax withheld at source: Section 322 (b) (relating to statute of limitations on filing claim for credit or refund) is hereby amended by adding at the end thereof the following new paragraph:

"(7) Special period of limitations with respect to certain overpayments resulting from

tax withheld on dividends, interest, or royalties: In the case of an individual filing a claim for credit or refund of an overpayment for a taxable year for which he was not required under section 51 (a) to make a return, if the overpayment is attributable to the credit allowed under section 35 for tax required to be deducted and withheld under subchapter A of chapter 6 (relating to tax withheld at source on dividends and interest) or for tax deducted and withheld under subchapter B of such chapter (relating to tax withheld at source on royalties), in lieu of the period of limitation prescribed in paragraph (1), the period shall be 7 years from the date prescribed by law for filing a return for the taxable year with respect to which the claim is made. In such a case, the amount of credit or refund may exceed the portion of the tax paid within the period prescribed in paragraph (2), to the extent of the amount of the overpayment attributable to such credit allowed under section 35, or to the extent of \$2, whichever is the lesser."

"(j) Presumptions as to date of payment: Section 322 (e) (relating to presumption as to date of payment) is hereby amended to read as follows:

"(e) Presumptions as to date of payment: For the purpose of this section—

"(1) any amount allowable as a credit under section 32 (relating to credit for tax withheld at source on tax-free covenant bonds and on payments to nonresident aliens and foreign corporations) or under section 35 (relating to credit for tax withheld at source on wages, dividends, interest, and royalties) shall, in respect of the person entitled to such credit, be deemed to have been paid by him on the last day prescribed by law (determined without regard to any extension of time granted the taxpayer), for the filing of the return for his taxable year with respect to which such amount is allowable as a credit; and

"(2) any amount paid as estimated tax for any taxable year shall be deemed to have been paid on the last day prescribed by law (determined without regard to any extension of time granted the taxpayer) for the filing of the return for such taxable year."

"(k) Interest on overpayments: Section 3771 (f) is hereby amended to read as follows:

"(f) Tax withheld at source and estimated tax—

"(1) Claims filed under special period of limitations provided in section 322 (b) (7): If credit or refund of the overpayment would be barred under section 322 (b) except for paragraph (7) thereof, no interest shall be allowed or paid with respect to the overpayment for any period ending prior to the expiration of 6 months after the date on which the claim was filed.

"(2) Cross reference: For date of payment in respect of estimated tax and tax withheld at source, see section 322 (e)."

"(l) Definition of withholding agent: Section 3797 (a) (16) is hereby amended by striking out '143 or 144', and by inserting in lieu thereof '143, 144, 1201, or 1221.'

"(m) Effective date: The amendments made by subsections (a) and (b) shall be applicable to taxable years beginning after December 31, 1951."

The next amendment was, on page 101, after line 7, to strike out:

"PART II—INCREASE IN WITHHOLDING OF TAX AT SOURCE ON WAGES

"SEC. 221. Percentage method of withholding.

"Section 1622 (a) (relating to percentage method of withholding) is hereby amended by striking out '18 percent' and inserting in lieu thereof '20 percent.'

"SEC. 222. Wage bracket withholding.

"The tables contained in section 1622 (c) (1) (relating to wage bracket withholding) are hereby amended to read as follows:

“If the payroll period with respect to an employee is weekly

And the wages are—		And the number of withholding exemptions claimed is—										
At least	But less than	0	1	2	3	4	5	6	7	8	9	10 or more
The amount of tax to be withheld shall be—												
\$0	\$13	20% of wages	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
\$13	\$14	\$2.70	.10	0	0	0	0	0	0	0	0	0
\$14	\$15	2.90	.30	0	0	0	0	0	0	0	0	0
\$15	\$16	3.10	.50	0	0	0	0	0	0	0	0	0
\$16	\$17	3.30	.70	0	0	0	0	0	0	0	0	0
\$17	\$18	3.50	.90	0	0	0	0	0	0	0	0	0
\$18	\$19	3.70	1.20	0	0	0	0	0	0	0	0	0
\$19	\$20	3.90	1.40	0	0	0	0	0	0	0	0	0
\$20	\$21	4.20	1.60	0	0	0	0	0	0	0	0	0
\$21	\$22	4.40	1.80	0	0	0	0	0	0	0	0	0
\$22	\$23	4.60	2.00	0	0	0	0	0	0	0	0	0
\$23	\$24	4.80	2.20	0	0	0	0	0	0	0	0	0
\$24	\$25	5.00	2.40	0	0	0	0	0	0	0	0	0
\$25	\$26	5.20	2.60	0	0	0	0	0	0	0	0	0
\$26	\$27	5.40	2.80	.20	0	0	0	0	0	0	0	0
\$27	\$28	5.60	3.00	.40	0	0	0	0	0	0	0	0
\$28	\$29	5.80	3.20	.60	0	0	0	0	0	0	0	0
\$29	\$30	6.00	3.40	.80	0	0	0	0	0	0	0	0
\$30	\$31	6.20	3.60	1.00	0	0	0	0	0	0	0	0
\$31	\$32	6.40	3.80	1.20	0	0	0	0	0	0	0	0
\$32	\$33	6.60	4.00	1.40	0	0	0	0	0	0	0	0
\$33	\$34	6.80	4.20	1.60	0	0	0	0	0	0	0	0
\$34	\$35	7.00	4.40	1.80	0	0	0	0	0	0	0	0
\$35	\$36	7.20	4.60	2.00	0	0	0	0	0	0	0	0
\$36	\$37	7.40	4.80	2.20	0	0	0	0	0	0	0	0
\$37	\$38	7.60	5.00	2.40	0	0	0	0	0	0	0	0
\$38	\$39	7.80	5.20	2.60	0	0	0	0	0	0	0	0
\$39	\$40	8.00	5.40	2.80	.20	0	0	0	0	0	0	0
\$40	\$41	8.20	5.60	3.00	.40	0	0	0	0	0	0	0
\$41	\$42	8.40	5.80	3.20	.60	0	0	0	0	0	0	0
\$42	\$43	8.60	6.00	3.40	.80	0	0	0	0	0	0	0
\$43	\$44	8.80	6.20	3.60	1.00	0	0	0	0	0	0	0
\$44	\$45	9.00	6.40	3.80	1.20	0	0	0	0	0	0	0
\$45	\$46	9.20	6.60	4.00	1.40	0	0	0	0	0	0	0
\$46	\$47	9.40	6.80	4.20	1.60	0	0	0	0	0	0	0
\$47	\$48	9.60	7.00	4.40	1.80	0	0	0	0	0	0	0
\$48	\$49	9.80	7.20	4.60	2.00	0	0	0	0	0	0	0
\$49	\$50	10.00	7.40	4.80	2.20	0	0	0	0	0	0	0
\$50	\$51	10.20	7.60	5.00	2.40	0	0	0	0	0	0	0
\$51	\$52	10.40	7.80	5.20	2.60	0	0	0	0	0	0	0
\$52	\$53	10.60	8.00	5.40	2.80	.20	0	0	0	0	0	0
\$53	\$54	10.80	8.20	5.60	3.00	.40	0	0	0	0	0	0
\$54	\$55	11.00	8.40	5.80	3.20	.70	0	0	0	0	0	0
\$55	\$56	11.20	8.60	6.00	3.50	.90	0	0	0	0	0	0
\$56	\$57	11.40	8.80	6.20	3.70	1.10	0	0	0	0	0	0
\$57	\$58	11.60	9.00	6.50	3.90	1.30	0	0	0	0	0	0
\$58	\$59	11.80	9.30	6.70	4.10	1.50	0	0	0	0	0	0
\$59	\$60	12.00	9.50	6.90	4.30	1.70	0	0	0	0	0	0
\$60	\$62	12.40	9.80	7.20	4.60	2.00	0	0	0	0	0	0
\$62	\$64	12.80	10.20	7.60	5.00	2.40	0	0	0	0	0	0
\$64	\$66	13.20	10.60	8.00	5.40	2.80	.20	0	0	0	0	0
\$66	\$68	13.60	11.00	8.40	5.80	3.20	.60	0	0	0	0	0
\$68	\$70	14.00	11.40	8.80	6.20	3.60	1.00	0	0	0	0	0
\$70	\$72	14.40	11.80	9.20	6.60	4.00	1.40	0	0	0	0	0
\$72	\$74	14.80	12.20	9.60	7.00	4.40	1.80	0	0	0	0	0
\$74	\$76	15.20	12.60	10.00	7.40	4.80	2.20	0	0	0	0	0
\$76	\$78	15.60	13.00	10.40	7.80	5.20	2.60	0	0	0	0	0
\$78	\$80	16.00	13.40	10.80	8.20	5.60	3.00	.40	0	0	0	0
\$80	\$82	16.40	13.80	11.20	8.60	6.00	3.40	.80	0	0	0	0
\$82	\$84	16.80	14.20	11.60	9.00	6.40	3.80	1.20	0	0	0	0
\$84	\$86	17.20	14.60	12.00	9.40	6.80	4.20	1.60	0	0	0	0
\$86	\$88	17.60	15.00	12.40	9.80	7.20	4.60	2.00	0	0	0	0
\$88	\$90	18.00	15.40	12.80	10.20	7.60	5.00	2.40	0	0	0	0
\$90	\$92	18.40	15.80	13.20	10.60	8.00	5.40	2.90	.30	0	0	0
\$92	\$94	18.80	16.20	13.60	11.00	8.40	5.90	3.30	.70	0	0	0
\$94	\$96	19.20	16.60	14.00	11.40	8.90	6.30	3.70	1.10	0	0	0
\$96	\$98	19.60	17.00	14.50	11.90	9.30	6.70	4.10	1.50	0	0	0
\$98	\$100	20.00	17.50	14.90	12.30	9.70	7.10	4.50	1.90	0	0	0
\$100	\$105	20.80	18.20	15.60	13.00	10.40	7.80	5.20	2.60	0	0	0
\$105	\$110	21.80	19.20	16.60	14.00	11.40	8.80	6.20	3.60	1.00	0	0
\$110	\$115	22.80	20.20	17.60	15.00	12.40	9.80	7.20	4.60	2.00	0	0
\$115	\$120	23.80	21.20	18.60	16.00	13.40	10.80	8.20	5.60	3.00	.40	0
\$120	\$125	24.80	22.20	19.60	17.00	14.40	11.80	9.20	6.60	4.00	1.40	0
\$125	\$130	25.80	23.20	20.60	18.00	15.40	12.80	10.20	7.60	5.00	2.50	0
\$130	\$135	26.80	24.20	21.60	19.00	16.40	13.90	11.30	8.70	6.10	3.50	.90
\$135	\$140	27.80	25.20	22.70	20.10	17.50	14.90	12.30	9.70	7.10	4.50	1.90
\$140	\$145	28.90	26.30	23.70	21.10	18.50	15.90	13.30	10.70	8.10	5.50	2.90
\$145	\$150	29.90	27.30	24.70	22.10	19.50	16.90	14.30	11.70	9.10	6.50	3.90
\$150	\$160	31.40	28.80	26.20	23.60	21.00	18.40	15.80	13.20	10.60	8.00	5.40
\$160	\$170	33.40	30.80	28.20	25.60	23.00	20.40	17.80	15.20	12.60	10.00	7.50
\$170	\$180	35.40	32.80	30.20	27.60	25.10	22.50	19.90	17.30	14.70	12.10	9.50
\$180	\$190	37.50	34.90	32.30	29.70	27.10	24.50	21.90	19.30	16.70	14.10	11.50
\$190	\$200	39.50	36.90	34.30	31.70	29.10	26.50	23.90	21.30	18.70	16.10	13.50
\$200 and over		20 percent of the excess over \$200 plus—										
		40.50	37.90	35.30	32.70	30.10	27.50	24.90	22.30	19.70	17.10	14.50

"If the payroll period with respect to an employee is biweekly

And the wages are—		And the number of withholding exemptions claimed is—										
At least	But less than	0	1	2	3	4	5	6	7	8	9	10 or more
The amount of tax to be withheld shall be—												
		20% of wages	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
\$0	\$26	\$5.50										
\$26	\$28		.30	0	0	0	0	0	0	0	0	0
\$28	\$30	5.90	.70	0	0	0	0	0	0	0	0	0
\$30	\$32	6.30	1.10	0	0	0	0	0	0	0	0	0
\$32	\$34	6.70	1.50	0	0	0	0	0	0	0	0	0
\$34	\$36	7.10	1.90	0	0	0	0	0	0	0	0	0
\$36	\$38	7.50	2.30	0	0	0	0	0	0	0	0	0
\$38	\$40	7.90	2.70	0	0	0	0	0	0	0	0	0
\$40	\$42	8.30	3.10	0	0	0	0	0	0	0	0	0
\$42	\$44	8.70	3.50	0	0	0	0	0	0	0	0	0
\$44	\$46	9.10	3.90	0	0	0	0	0	0	0	0	0
\$46	\$48	9.50	4.30	0	0	0	0	0	0	0	0	0
\$48	\$50	9.90	4.70	0	0	0	0	0	0	0	0	0
\$50	\$52	10.30	5.10	0	0	0	0	0	0	0	0	0
\$52	\$54	10.70	5.50	.30	0	0	0	0	0	0	0	0
\$54	\$56	11.10	5.90	.80	0	0	0	0	0	0	0	0
\$56	\$58	11.50	6.40	1.20	0	0	0	0	0	0	0	0
\$58	\$60	11.90	6.80	1.60	0	0	0	0	0	0	0	0
\$60	\$62	12.40	7.20	2.00	0	0	0	0	0	0	0	0
\$62	\$64	12.80	7.60	2.40	0	0	0	0	0	0	0	0
\$64	\$66	13.20	8.00	2.80	0	0	0	0	0	0	0	0
\$66	\$68	13.60	8.40	3.20	0	0	0	0	0	0	0	0
\$68	\$70	14.00	8.80	3.60	0	0	0	0	0	0	0	0
\$70	\$72	14.40	9.20	4.00	0	0	0	0	0	0	0	0
\$72	\$74	14.80	9.60	4.40	0	0	0	0	0	0	0	0
\$74	\$76	15.20	10.00	4.80	0	0	0	0	0	0	0	0
\$76	\$78	15.60	10.40	5.20	0	0	0	0	0	0	0	0
\$78	\$80	16.00	10.80	5.60	.40	0	0	0	0	0	0	0
\$80	\$82	16.40	11.20	6.00	.80	0	0	0	0	0	0	0
\$82	\$84	16.80	11.60	6.40	1.20	0	0	0	0	0	0	0
\$84	\$86	17.20	12.00	6.80	1.60	0	0	0	0	0	0	0
\$86	\$88	17.60	12.40	7.20	2.00	0	0	0	0	0	0	0
\$88	\$90	18.00	12.80	7.60	2.40	0	0	0	0	0	0	0
\$90	\$92	18.40	13.20	8.00	2.90	0	0	0	0	0	0	0
\$92	\$94	18.80	13.60	8.40	3.30	0	0	0	0	0	0	0
\$94	\$96	19.20	14.00	8.80	3.70	0	0	0	0	0	0	0
\$96	\$98	19.60	14.50	9.30	4.10	0	0	0	0	0	0	0
\$98	\$100	20.00	14.90	9.70	4.50	0	0	0	0	0	0	0
\$100	\$102	20.50	15.30	10.10	4.90	0	0	0	0	0	0	0
\$102	\$104	20.90	15.70	10.50	5.30	.10	0	0	0	0	0	0
\$104	\$106	21.30	16.10	10.90	5.70	.50	0	0	0	0	0	0
\$106	\$108	21.70	16.50	11.30	6.10	.90	0	0	0	0	0	0
\$108	\$110	22.10	16.90	11.70	6.50	1.30	0	0	0	0	0	0
\$110	\$112	22.50	17.30	12.10	6.90	1.70	0	0	0	0	0	0
\$112	\$114	22.90	17.70	12.50	7.30	2.10	0	0	0	0	0	0
\$114	\$116	23.30	18.10	12.90	7.70	2.50	0	0	0	0	0	0
\$116	\$118	23.70	18.50	13.30	8.10	2.90	0	0	0	0	0	0
\$118	\$120	24.10	18.90	13.70	8.50	3.30	0	0	0	0	0	0
\$120	\$124	24.70	19.50	14.30	9.10	3.90	0	0	0	0	0	0
\$124	\$128	25.50	20.30	15.10	9.90	4.70	0	0	0	0	0	0
\$128	\$132	26.30	21.10	15.90	10.70	5.60	.40	0	0	0	0	0
\$132	\$136	27.10	21.90	16.80	11.60	6.40	1.20	0	0	0	0	0
\$136	\$140	27.90	22.80	17.60	12.40	7.20	2.00	0	0	0	0	0
\$140	\$144	28.80	23.60	18.40	13.20	8.00	2.80	0	0	0	0	0
\$144	\$148	29.60	24.40	19.20	14.00	8.80	3.60	0	0	0	0	0
\$148	\$152	30.40	25.20	20.00	14.80	9.60	4.40	0	0	0	0	0
\$152	\$156	31.20	26.00	20.80	15.60	10.40	5.20	0	0	0	0	0
\$156	\$160	32.00	26.80	21.60	16.40	11.20	6.00	.80	0	0	0	0
\$160	\$164	32.80	27.60	22.40	17.20	12.00	6.80	1.70	0	0	0	0
\$164	\$168	33.60	28.40	23.20	18.00	12.80	7.70	2.50	0	0	0	0
\$168	\$172	34.40	29.20	24.00	18.80	13.70	8.50	3.30	0	0	0	0
\$172	\$176	35.20	30.00	24.90	19.70	14.50	9.30	4.10	0	0	0	0
\$176	\$180	36.00	30.90	25.70	20.50	15.30	10.10	4.90	0	0	0	0
\$180	\$184	36.90	31.70	26.50	21.30	16.10	10.90	5.70	.50	0	0	0
\$184	\$188	37.70	32.50	27.30	22.10	16.90	11.70	6.50	1.30	0	0	0
\$188	\$192	38.50	33.30	28.10	22.90	17.70	12.50	7.30	2.10	0	0	0
\$192	\$196	39.30	34.10	28.90	23.70	18.50	13.30	8.10	2.90	0	0	0
\$196	\$200	40.10	34.90	29.70	24.50	19.30	14.10	8.90	3.70	0	0	0
\$200	\$210	41.50	36.30	31.10	25.90	20.70	15.60	10.40	5.20	0	0	0
\$210	\$220	43.50	38.30	33.20	28.00	22.80	17.60	12.40	7.20	2.00	0	0
\$220	\$230	45.60	40.40	35.20	30.00	24.80	19.60	14.40	9.20	4.00	0	0
\$230	\$240	47.60	42.40	37.20	32.00	26.80	21.60	16.40	11.20	6.00	.90	0
\$240	\$250	49.60	44.40	39.20	34.00	28.80	23.70	18.50	13.30	8.10	2.90	0
\$250	\$260	51.60	46.40	41.30	36.10	30.90	25.70	20.50	15.30	10.10	4.90	0
\$260	\$270	53.70	48.50	43.30	38.10	32.90	27.70	22.50	17.30	12.10	6.90	1.70
\$270	\$280	55.70	50.50	45.30	40.10	34.90	29.70	24.50	19.30	14.10	9.00	3.80
\$280	\$290	57.70	52.50	47.30	42.10	36.90	31.80	26.60	21.40	16.20	11.00	5.80
\$290	\$300	59.70	54.50	49.40	44.20	39.00	33.80	28.60	23.40	18.20	13.00	7.80
\$300	\$320	62.80	57.60	52.40	47.20	42.00	36.80	31.60	26.40	21.20	16.00	10.90
\$320	\$340	66.80	61.60	56.40	51.20	46.10	40.90	35.70	30.50	25.30	20.10	14.90
\$340	\$360	70.90	65.70	60.50	55.30	50.10	44.90	39.70	34.50	29.30	24.10	19.00
\$360	\$380	74.90	69.70	64.50	59.30	54.20	49.00	43.80	38.60	33.40	28.20	23.00
\$380	\$400	79.00	73.80	68.60	63.40	58.20	53.00	47.80	42.60	37.40	32.20	27.10
\$400 and over		20 percent of the excess over \$400 plus										
		81.00	75.80	70.60	65.40	60.20	55.00	49.80	44.70	39.50	34.30	29.10

"If the payroll period with respect to an employee is semimonthly

And the wages are—		And the number of withholding exemptions claimed is—										
At least	But less than	0	1	2	3	4	5	6	7	8	9	10 or more
The amount of tax to be withheld shall be—												
\$0.	\$28.	20% of wages	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
\$28.	\$30.	\$5.90	.20	0	0	0	0	0	0	0	0	0
\$30.	\$32.	6.30	.70	0	0	0	0	0	0	0	0	0
\$32.	\$34.	6.70	1.10	0	0	0	0	0	0	0	0	0
\$34.	\$36.	7.10	1.50	0	0	0	0	0	0	0	0	0
\$36.	\$38.	7.50	1.90	0	0	0	0	0	0	0	0	0
\$38.	\$40.	7.90	2.30	0	0	0	0	0	0	0	0	0
\$40.	\$42.	8.30	2.70	0	0	0	0	0	0	0	0	0
\$42.	\$44.	8.70	3.10	0	0	0	0	0	0	0	0	0
\$44.	\$46.	9.10	3.50	0	0	0	0	0	0	0	0	0
\$46.	\$48.	9.50	3.90	0	0	0	0	0	0	0	0	0
\$48.	\$50.	9.90	4.30	0	0	0	0	0	0	0	0	0
\$50.	\$52.	10.30	4.70	0	0	0	0	0	0	0	0	0
\$52.	\$54.	10.70	5.10	0	0	0	0	0	0	0	0	0
\$54.	\$56.	11.10	5.50	0	0	0	0	0	0	0	0	0
\$56.	\$58.	11.50	5.90	.30	0	0	0	0	0	0	0	0
\$58.	\$60.	11.90	6.30	.70	0	0	0	0	0	0	0	0
\$60.	\$62.	12.40	6.70	1.10	0	0	0	0	0	0	0	0
\$62.	\$64.	12.80	7.10	1.50	0	0	0	0	0	0	0	0
\$64.	\$66.	13.20	7.50	1.90	0	0	0	0	0	0	0	0
\$66.	\$68.	13.60	7.90	2.30	0	0	0	0	0	0	0	0
\$68.	\$70.	14.00	8.30	2.70	0	0	0	0	0	0	0	0
\$70.	\$72.	14.40	8.80	3.10	0	0	0	0	0	0	0	0
\$72.	\$74.	14.80	9.20	3.50	0	0	0	0	0	0	0	0
\$74.	\$76.	15.20	9.60	3.90	0	0	0	0	0	0	0	0
\$76.	\$78.	15.60	10.00	4.30	0	0	0	0	0	0	0	0
\$78.	\$80.	16.00	10.40	4.70	0	0	0	0	0	0	0	0
\$80.	\$82.	16.40	10.80	5.20	0	0	0	0	0	0	0	0
\$82.	\$84.	16.80	11.20	5.60	0	0	0	0	0	0	0	0
\$84.	\$86.	17.20	11.60	6.00	.30	0	0	0	0	0	0	0
\$86.	\$88.	17.60	12.00	6.40	.70	0	0	0	0	0	0	0
\$88.	\$90.	18.00	12.40	6.80	1.10	0	0	0	0	0	0	0
\$90.	\$92.	18.40	12.80	7.20	1.60	0	0	0	0	0	0	0
\$92.	\$94.	18.80	13.20	7.60	2.00	0	0	0	0	0	0	0
\$94.	\$96.	19.20	13.60	8.00	2.40	0	0	0	0	0	0	0
\$96.	\$98.	19.60	14.00	8.40	2.80	0	0	0	0	0	0	0
\$98.	\$100.	20.00	14.40	8.80	3.20	0	0	0	0	0	0	0
\$100.	\$102.	20.50	14.80	9.20	3.60	0	0	0	0	0	0	0
\$102.	\$104.	20.90	15.20	9.60	4.00	0	0	0	0	0	0	0
\$104.	\$106.	21.30	15.60	10.00	4.40	0	0	0	0	0	0	0
\$106.	\$108.	21.70	16.00	10.40	4.80	0	0	0	0	0	0	0
\$108.	\$110.	22.10	16.40	10.80	5.20	0	0	0	0	0	0	0
\$110.	\$112.	22.50	16.90	11.20	5.60	0	0	0	0	0	0	0
\$112.	\$114.	22.90	17.30	11.60	6.00	.40	0	0	0	0	0	0
\$114.	\$116.	23.30	17.70	12.00	6.40	.80	0	0	0	0	0	0
\$116.	\$118.	23.70	18.10	12.40	6.80	1.20	0	0	0	0	0	0
\$118.	\$120.	24.10	18.50	12.80	7.20	1.60	0	0	0	0	0	0
\$120.	\$124.	24.70	19.10	13.50	7.80	2.20	0	0	0	0	0	0
\$124.	\$128.	25.50	19.90	14.30	8.60	3.00	0	0	0	0	0	0
\$128.	\$132.	26.30	20.70	15.10	9.50	3.80	0	0	0	0	0	0
\$132.	\$136.	27.10	21.50	15.90	10.30	4.60	0	0	0	0	0	0
\$136.	\$140.	27.90	22.30	16.70	11.10	5.40	0	0	0	0	0	0
\$140.	\$144.	28.80	23.10	17.50	11.90	6.30	.60	0	0	0	0	0
\$144.	\$148.	29.60	23.90	18.30	12.70	7.10	1.40	0	0	0	0	0
\$148.	\$152.	30.40	24.80	19.10	13.50	7.90	2.30	0	0	0	0	0
\$152.	\$156.	31.20	25.60	19.90	14.30	8.70	3.10	0	0	0	0	0
\$156.	\$160.	32.00	26.40	20.70	15.10	9.50	3.90	0	0	0	0	0
\$160.	\$164.	32.80	27.20	21.60	15.90	10.30	4.70	0	0	0	0	0
\$164.	\$168.	33.60	28.00	22.40	16.70	11.10	5.50	0	0	0	0	0
\$168.	\$172.	34.40	28.80	23.20	17.60	11.90	6.30	.70	0	0	0	0
\$172.	\$176.	35.20	29.60	24.00	18.40	12.70	7.10	1.50	0	0	0	0
\$176.	\$180.	36.00	30.40	24.80	19.20	13.50	7.90	2.30	0	0	0	0
\$180.	\$184.	36.90	31.20	25.60	20.00	14.40	8.70	3.10	0	0	0	0
\$184.	\$188.	37.70	32.00	26.40	20.80	15.20	9.50	3.90	0	0	0	0
\$188.	\$192.	38.50	32.90	27.20	21.60	16.00	10.40	4.70	0	0	0	0
\$192.	\$196.	39.30	33.70	28.00	22.40	16.80	11.20	5.50	0	0	0	0
\$196.	\$200.	40.10	34.50	28.80	23.20	17.60	12.00	6.30	.70	0	0	0
\$200.	\$210.	41.50	35.90	30.30	24.60	19.00	13.40	7.80	2.10	0	0	0
\$210.	\$220.	43.50	37.90	32.30	26.70	21.00	15.40	9.80	4.20	0	0	0
\$220.	\$230.	45.60	39.90	34.30	28.70	23.10	17.40	11.80	6.20	.60	0	0
\$230.	\$240.	47.60	42.00	36.30	30.70	25.10	19.50	13.80	8.20	2.60	0	0
\$240.	\$250.	49.60	44.00	38.40	32.70	27.10	21.50	15.90	10.20	4.60	0	0
\$250.	\$260.	51.60	46.00	40.40	34.80	29.10	23.50	17.90	12.30	6.60	1.00	0
\$260.	\$270.	53.70	48.00	42.40	36.80	31.20	25.50	19.90	14.30	8.70	3.00	0
\$270.	\$280.	55.70	50.10	44.40	38.80	33.20	27.60	21.90	16.30	10.70	5.10	0
\$280.	\$290.	57.70	52.10	46.50	40.80	35.20	29.60	24.00	18.30	12.70	7.10	1.50
\$290.	\$300.	59.70	54.10	48.50	42.90	37.20	31.60	26.00	20.40	14.70	9.10	3.50
\$300.	\$320.	62.80	57.20	51.50	45.90	40.30	34.70	29.00	23.40	17.80	12.20	6.50
\$320.	\$340.	66.80	61.20	55.60	50.00	44.30	38.70	33.10	27.50	21.80	16.20	10.60
\$340.	\$360.	70.90	65.30	59.60	54.00	48.40	42.80	37.10	31.50	25.90	20.30	14.60
\$360.	\$380.	74.90	69.30	63.70	58.10	52.40	46.80	41.20	35.60	29.90	24.30	18.70
\$380.	\$400.	79.00	73.40	67.70	62.10	56.50	50.90	45.20	39.60	34.00	28.40	22.70
\$400.	\$420.	83.00	77.40	71.80	66.20	60.50	54.90	49.30	43.70	38.00	32.40	26.80
\$420.	\$440.	87.10	81.50	75.80	70.20	64.60	59.00	53.30	47.70	42.10	36.50	30.80
\$440.	\$460.	91.10	85.50	79.90	74.30	68.60	63.00	57.40	51.80	46.10	40.50	34.90
\$460.	\$480.	95.20	89.60	83.90	78.30	72.70	67.10	61.40	55.80	50.20	44.60	38.90
\$480.	\$500.	99.20	93.60	88.00	82.40	76.70	71.10	65.50	59.90	54.20	48.60	43.00
\$500 and over—		20 percent of the excess over \$500 plus—										
		101.30										

"If the payroll period with respect to an employee is monthly

And the wages are—		And the number of withholding exemptions claimed is—										
At least	But less than	0	1	2	3	4	5	6	7	8	9	10 or more
The amount of tax to be withheld shall be—												
\$0	\$56	20% of wages	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
\$56	\$60	\$11.70	.50	0	0	0	0	0	0	0	0	0
\$60	\$64	12.60	1.30	0	0	0	0	0	0	0	0	0
\$64	\$68	13.40	2.10	0	0	0	0	0	0	0	0	0
\$68	\$72	14.20	2.90	0	0	0	0	0	0	0	0	0
\$72	\$76	15.00	3.70	0	0	0	0	0	0	0	0	0
\$76	\$80	15.80	4.50	0	0	0	0	0	0	0	0	0
\$80	\$84	16.60	5.40	0	0	0	0	0	0	0	0	0
\$84	\$88	17.40	6.20	0	0	0	0	0	0	0	0	0
\$88	\$92	18.20	7.00	0	0	0	0	0	0	0	0	0
\$92	\$96	19.00	7.80	0	0	0	0	0	0	0	0	0
\$96	\$100	19.80	8.60	0	0	0	0	0	0	0	0	0
\$100	\$104	20.70	9.40	0	0	0	0	0	0	0	0	0
\$104	\$108	21.50	10.20	0	0	0	0	0	0	0	0	0
\$108	\$112	22.30	11.00	0	0	0	0	0	0	0	0	0
\$112	\$116	23.10	11.80	.60	0	0	0	0	0	0	0	0
\$116	\$120	23.90	12.60	1.40	0	0	0	0	0	0	0	0
\$120	\$124	24.70	13.50	2.20	0	0	0	0	0	0	0	0
\$124	\$128	25.50	14.30	3.00	0	0	0	0	0	0	0	0
\$128	\$132	26.30	15.10	3.80	0	0	0	0	0	0	0	0
\$132	\$136	27.10	15.90	4.60	0	0	0	0	0	0	0	0
\$136	\$140	27.90	16.70	5.40	0	0	0	0	0	0	0	0
\$140	\$144	28.80	17.50	6.30	0	0	0	0	0	0	0	0
\$144	\$148	29.60	18.30	7.10	0	0	0	0	0	0	0	0
\$148	\$152	30.40	19.10	7.90	0	0	0	0	0	0	0	0
\$152	\$156	31.20	19.90	8.70	0	0	0	0	0	0	0	0
\$156	\$160	32.00	20.70	9.50	0	0	0	0	0	0	0	0
\$160	\$164	32.80	21.60	10.30	0	0	0	0	0	0	0	0
\$164	\$168	33.60	22.40	11.10	0	0	0	0	0	0	0	0
\$168	\$172	34.40	23.20	11.90	.70	0	0	0	0	0	0	0
\$172	\$176	35.20	24.00	12.70	1.50	0	0	0	0	0	0	0
\$176	\$180	36.00	24.80	13.50	2.30	0	0	0	0	0	0	0
\$180	\$184	36.90	25.60	14.40	3.10	0	0	0	0	0	0	0
\$184	\$188	37.70	26.40	15.20	3.90	0	0	0	0	0	0	0
\$188	\$192	38.50	27.20	16.00	4.70	0	0	0	0	0	0	0
\$192	\$196	39.30	28.00	16.80	5.50	0	0	0	0	0	0	0
\$196	\$200	40.10	28.80	17.60	6.30	0	0	0	0	0	0	0
\$200	\$204	40.90	29.70	18.40	7.20	0	0	0	0	0	0	0
\$204	\$208	41.70	30.50	19.20	8.00	0	0	0	0	0	0	0
\$208	\$212	42.50	31.30	20.00	8.80	0	0	0	0	0	0	0
\$212	\$216	43.30	32.10	20.80	9.60	0	0	0	0	0	0	0
\$216	\$220	44.10	32.90	21.60	10.40	0	0	0	0	0	0	0
\$220	\$224	45.00	33.70	22.50	11.20	0	0	0	0	0	0	0
\$224	\$228	45.80	34.50	23.30	12.00	.80	0	0	0	0	0	0
\$228	\$232	46.60	35.30	24.10	12.80	1.60	0	0	0	0	0	0
\$232	\$236	47.40	36.10	24.90	13.60	2.40	0	0	0	0	0	0
\$236	\$240	48.20	36.90	25.70	14.40	3.20	0	0	0	0	0	0
\$240	\$244	49.40	38.20	26.90	15.70	4.40	0	0	0	0	0	0
\$244	\$248	51.00	39.80	28.50	17.30	6.00	0	0	0	0	0	0
\$248	\$252	52.70	41.40	30.20	18.90	7.70	0	0	0	0	0	0
\$252	\$256	54.30	43.00	31.80	20.50	9.30	0	0	0	0	0	0
\$256	\$260	55.90	44.60	33.40	22.10	10.90	0	0	0	0	0	0
\$260	\$264	57.50	46.30	35.00	23.80	12.50	1.30	0	0	0	0	0
\$264	\$268	59.10	47.90	36.60	25.40	14.10	2.90	0	0	0	0	0
\$268	\$272	60.80	49.50	38.30	27.00	15.80	4.50	0	0	0	0	0
\$272	\$276	62.40	51.10	39.90	28.60	17.40	6.10	0	0	0	0	0
\$276	\$280	64.00	52.70	41.50	30.20	19.00	7.70	0	0	0	0	0
\$280	\$284	65.60	54.40	43.10	31.80	20.60	9.40	0	0	0	0	0
\$284	\$288	67.20	56.00	44.70	33.50	22.20	11.00	0	0	0	0	0
\$288	\$292	68.90	57.60	46.40	35.10	23.90	12.60	1.40	0	0	0	0
\$292	\$296	70.50	59.20	48.00	36.70	25.50	14.20	3.00	0	0	0	0
\$296	\$300	72.10	60.80	49.60	38.30	27.10	15.80	4.60	0	0	0	0
\$300	\$304	73.70	62.50	51.20	40.00	28.70	17.50	6.20	0	0	0	0
\$304	\$308	75.30	64.10	52.80	41.60	30.30	19.10	7.80	0	0	0	0
\$308	\$312	77.00	65.70	54.50	43.20	32.00	20.70	9.50	0	0	0	0
\$312	\$316	78.60	67.30	56.10	44.80	33.60	22.30	11.10	0	0	0	0
\$316	\$320	80.20	68.90	57.70	46.40	35.20	23.90	12.70	1.40	0	0	0
\$320	\$324	83.00	71.80	60.50	49.30	38.00	26.80	15.50	4.30	0	0	0
\$324	\$328	87.10	75.80	64.60	53.30	42.10	30.80	19.60	8.30	0	0	0
\$328	\$332	91.10	79.90	68.60	57.40	46.10	34.90	23.60	12.40	1.10	0	0
\$332	\$336	95.20	83.90	72.70	61.40	50.20	38.90	27.70	16.40	5.20	0	0
\$336	\$340	99.20	88.00	76.70	65.50	54.20	43.00	31.70	20.50	9.20	0	0
\$340	\$344	103.30	92.00	80.80	69.50	58.30	47.00	35.80	24.50	13.30	2.00	0
\$344	\$348	107.30	96.10	84.80	73.60	62.30	51.10	39.80	28.60	17.30	6.10	0
\$348	\$352	111.40	100.10	88.90	77.60	66.40	55.10	43.90	32.60	21.40	10.10	0
\$352	\$356	115.40	104.20	92.90	81.70	70.40	59.20	47.90	36.70	25.40	14.20	2.90
\$356	\$360	119.50	108.20	97.00	85.70	74.50	63.20	52.00	40.70	29.50	18.20	7.00
\$360	\$364	125.60	114.30	103.10	91.80	80.60	69.30	58.10	46.80	35.60	24.30	13.10
\$364	\$368	133.70	122.40	111.20	99.90	88.70	77.40	66.20	54.90	43.70	32.40	21.20
\$368	\$372	141.80	130.50	119.30	108.00	96.80	85.50	74.30	63.00	51.80	40.50	29.30
\$372	\$376	149.90	138.60	127.40	116.10	104.90	93.60	82.40	71.10	59.90	48.60	37.40
\$376	\$380	158.00	146.70	135.50	124.20	113.00	101.70	90.50	79.20	68.00	56.70	45.50
\$380	\$384	166.10	154.80	143.60	132.30	121.10	109.80	98.60	87.30	76.10	64.80	53.60
\$384	\$388	174.20	162.90	151.70	140.40	129.20	117.90	106.70	95.40	84.20	72.90	61.70
\$388	\$392	182.30	171.00	159.80	148.50	137.30	126.00	114.80	103.50	92.30	81.00	69.80
\$392	\$396	190.40	179.10	167.90	156.60	145.40	134.10	122.90	111.60	100.40	89.10	77.90
\$396	\$1,000	198.50	187.20	176.00	164.70	153.50	142.20	131.00	119.70	108.50	97.20	86.00
\$1,000 and over												
20 percent of the excess over \$1,000 plus—												
		202.50	191.30	180.00	168.80	157.50	146.30	135.00	123.80	112.50	101.30	90.00

"If the payroll period with respect to an employee is a daily payroll period or a miscellaneous payroll period"

And the wages divided by the number of days in such period are—		And the number of withholding exemptions claimed is—										
		0	1	2	3	4	5	6	7	8	9	10 or more
At least	But less than	The amount of tax to be withheld shall be the following amount multiplied by the number of days in such period—										
\$0	\$2.00	20% of wages	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
\$2.00	\$2.25	\$0.45	.05	0	0	0	0	0	0	0	0	0
\$2.25	\$2.50	.50	.10	0	0	0	0	0	0	0	0	0
\$2.50	\$2.75	.55	.15	0	0	0	0	0	0	0	0	0
\$2.75	\$3.00	.60	.20	0	0	0	0	0	0	0	0	0
\$3.00	\$3.25	.65	.25	0	0	0	0	0	0	0	0	0
\$3.25	\$3.50	.70	.30	0	0	0	0	0	0	0	0	0
\$3.50	\$3.75	.75	.35	0	0	0	0	0	0	0	0	0
\$3.75	\$4.00	.80	.40	.05	0	0	0	0	0	0	0	0
\$4.00	\$4.25	.85	.45	.10	0	0	0	0	0	0	0	0
\$4.25	\$4.50	.90	.50	.15	0	0	0	0	0	0	0	0
\$4.50	\$4.75	.95	.55	.20	0	0	0	0	0	0	0	0
\$4.75	\$5.00	1.00	.60	.25	0	0	0	0	0	0	0	0
\$5.00	\$5.25	1.05	.65	.30	0	0	0	0	0	0	0	0
\$5.25	\$5.50	1.10	.70	.35	0	0	0	0	0	0	0	0
\$5.50	\$5.75	1.15	.75	.40	.05	0	0	0	0	0	0	0
\$5.75	\$6.00	1.20	.80	.45	.10	0	0	0	0	0	0	0
\$6.00	\$6.25	1.25	.85	.50	.15	0	0	0	0	0	0	0
\$6.25	\$6.50	1.30	.90	.55	.20	0	0	0	0	0	0	0
\$6.50	\$6.75	1.35	.95	.60	.25	0	0	0	0	0	0	0
\$6.75	\$7.00	1.40	1.00	.65	.30	0	0	0	0	0	0	0
\$7.00	\$7.25	1.45	1.05	.70	.35	0	0	0	0	0	0	0
\$7.25	\$7.50	1.50	1.10	.75	.40	0	0	0	0	0	0	0
\$7.50	\$7.75	1.55	1.15	.80	.45	.05	0	0	0	0	0	0
\$7.75	\$8.00	1.60	1.20	.85	.50	.10	0	0	0	0	0	0
\$8.00	\$8.25	1.65	1.30	.90	.55	.15	0	0	0	0	0	0
\$8.25	\$8.50	1.70	1.35	.95	.60	.20	0	0	0	0	0	0
\$8.50	\$8.75	1.75	1.40	1.00	.65	.25	0	0	0	0	0	0
\$8.75	\$9.00	1.80	1.45	1.05	.70	.30	0	0	0	0	0	0
\$9.00	\$9.25	1.85	1.50	1.10	.75	.35	0	0	0	0	0	0
\$9.25	\$9.50	1.90	1.55	1.15	.80	.40	.05	0	0	0	0	0
\$9.50	\$9.75	1.95	1.60	1.20	.85	.45	.10	0	0	0	0	0
\$9.75	\$10.00	2.00	1.65	1.25	.90	.50	.15	0	0	0	0	0
\$10.00	\$10.50	2.10	1.70	1.35	.95	.60	.25	0	0	0	0	0
\$10.50	\$11.00	2.20	1.80	1.45	1.05	.70	.35	0	0	0	0	0
\$11.00	\$11.50	2.30	1.90	1.55	1.15	.80	.45	.05	0	0	0	0
\$11.50	\$12.00	2.40	2.00	1.65	1.25	.90	.55	.15	0	0	0	0
\$12.00	\$12.50	2.50	2.10	1.75	1.35	1.00	.65	.25	0	0	0	0
\$12.50	\$13.00	2.60	2.20	1.85	1.45	1.10	.75	.35	0	0	0	0
\$13.00	\$13.50	2.70	2.30	1.95	1.55	1.20	.85	.45	.10	0	0	0
\$13.50	\$14.00	2.80	2.40	2.05	1.65	1.30	.95	.55	.20	0	0	0
\$14.00	\$14.50	2.90	2.50	2.15	1.80	1.40	1.05	.65	.30	0	0	0
\$14.50	\$15.00	3.00	2.60	2.25	1.90	1.50	1.15	.75	.40	.05	0	0
\$15.00	\$15.50	3.10	2.70	2.35	2.00	1.60	1.25	.85	.50	.15	0	0
\$15.50	\$16.00	3.20	2.80	2.45	2.10	1.70	1.35	.95	.60	.25	0	0
\$16.00	\$16.50	3.30	2.90	2.55	2.20	1.80	1.45	1.05	.70	.35	0	0
\$16.50	\$17.00	3.40	3.00	2.65	2.30	1.90	1.55	1.15	.80	.45	.05	0
\$17.00	\$17.50	3.50	3.10	2.75	2.40	2.00	1.65	1.25	.90	.55	.15	0
\$17.50	\$18.00	3.60	3.20	2.85	2.50	2.10	1.75	1.40	1.00	.65	.25	0
\$18.00	\$18.50	3.70	3.35	2.95	2.60	2.20	1.85	1.50	1.10	.75	.35	0
\$18.50	\$19.00	3.80	3.45	3.05	2.70	2.30	1.95	1.60	1.20	.85	.45	.10
\$19.00	\$19.50	3.90	3.55	3.15	2.80	2.40	2.05	1.70	1.30	.95	.55	.20
\$19.50	\$20.00	4.00	3.65	3.25	2.90	2.50	2.15	1.80	1.40	1.05	.65	.30
\$20.00	\$21.00	4.15	3.80	3.40	3.05	2.65	2.30	1.95	1.55	1.20	.80	.45
\$21.00	\$22.00	4.35	4.00	3.60	3.25	2.85	2.50	2.15	1.75	1.40	1.00	.65
\$22.00	\$23.00	4.55	4.20	3.80	3.45	3.10	2.70	2.35	1.95	1.60	1.25	.85
\$23.00	\$24.00	4.75	4.40	4.00	3.65	3.30	2.90	2.55	2.15	1.80	1.45	1.05
\$24.00	\$25.00	4.95	4.60	4.20	3.85	3.50	3.10	2.75	2.35	2.00	1.65	1.25
\$25.00	\$26.00	5.15	4.80	4.40	4.05	3.70	3.30	2.95	2.55	2.20	1.85	1.45
\$26.00	\$27.00	5.35	5.00	4.65	4.25	3.90	3.50	3.15	2.80	2.40	2.05	1.65
\$27.00	\$28.00	5.55	5.20	4.85	4.45	4.10	3.70	3.35	3.00	2.60	2.25	1.85
\$28.00	\$29.00	5.75	5.40	5.05	4.65	4.30	3.90	3.55	3.20	2.80	2.45	2.05
\$29.00	\$30.00	5.95	5.60	5.25	4.85	4.50	4.10	3.75	3.40	3.00	2.65	2.30
\$30 and over		20 percent of the excess over \$30 plus—										
		6.10	5.70	5.35	4.95	4.60	4.25	3.85	3.50	3.10	2.75	2.40

The next amendment was, at the top of page 107, to insert:

"Sec. 201. Percentage method of withholding.

"Section 1622 (a) (relating to percentage method of withholding on wages) is hereby amended by inserting before the period at the end thereof the following: 'except that in the case of wages paid on or after Novem-

ber 1, 1951, and before January 1, 1954, the tax shall be equal to 20 percent of such excess in lieu of 18 percent.'"

The next amendment was, on page 107, after line 7, to insert:

"Sec. 202. Wage bracket withholding.

"So much of section 1622 (c) (1) as precedes the tables in such section is hereby amended to read as follows:

"(1) (A) Wages paid after October 31, 1951, and before January 1, 1954: At the election of the employer with respect to any employee, the employer shall deduct and withhold upon the wages paid to such employee after October 31, 1951, and before January 1, 1954, a tax determined in accordance with the following tables, which shall be in lieu of the tax required to be deducted and withheld under subsection (a):

"If the payroll period with respect to an employee is weekly

And the wages are—		And the number of withholding exemptions claimed is—										
At least	But less than	0	1	2	3	4	5	6	7	8	9	10 or more
The amount of tax to be withheld shall be—												
\$0.	\$13.	20% of wages	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
\$13.	\$14.	\$2.70	.10	0	0	0	0	0	0	0	0	0
\$14.	\$15.	2.90	.30	0	0	0	0	0	0	0	0	0
\$15.	\$16.	3.10	.50	0	0	0	0	0	0	0	0	0
\$16.	\$17.	3.30	.70	0	0	0	0	0	0	0	0	0
\$17.	\$18.	3.50	.90	0	0	0	0	0	0	0	0	0
\$18.	\$19.	3.70	1.10	0	0	0	0	0	0	0	0	0
\$19.	\$20.	3.90	1.30	0	0	0	0	0	0	0	0	0
\$20.	\$21.	4.10	1.50	0	0	0	0	0	0	0	0	0
\$21.	\$22.	4.30	1.70	0	0	0	0	0	0	0	0	0
\$22.	\$23.	4.50	1.90	0	0	0	0	0	0	0	0	0
\$23.	\$24.	4.70	2.10	0	0	0	0	0	0	0	0	0
\$24.	\$25.	4.90	2.30	0	0	0	0	0	0	0	0	0
\$25.	\$26.	5.10	2.50	0	0	0	0	0	0	0	0	0
\$26.	\$27.	5.30	2.70	.20	0	0	0	0	0	0	0	0
\$27.	\$28.	5.50	2.90	.40	0	0	0	0	0	0	0	0
\$28.	\$29.	5.70	3.10	.60	0	0	0	0	0	0	0	0
\$29.	\$30.	5.90	3.30	.80	0	0	0	0	0	0	0	0
\$30.	\$31.	6.10	3.50	1.00	0	0	0	0	0	0	0	0
\$31.	\$32.	6.30	3.70	1.20	0	0	0	0	0	0	0	0
\$32.	\$33.	6.50	3.90	1.40	0	0	0	0	0	0	0	0
\$33.	\$34.	6.70	4.10	1.60	0	0	0	0	0	0	0	0
\$34.	\$35.	6.90	4.30	1.80	0	0	0	0	0	0	0	0
\$35.	\$36.	7.10	4.50	2.00	0	0	0	0	0	0	0	0
\$36.	\$37.	7.30	4.70	2.20	0	0	0	0	0	0	0	0
\$37.	\$38.	7.50	4.90	2.40	0	0	0	0	0	0	0	0
\$38.	\$39.	7.70	5.10	2.60	0	0	0	0	0	0	0	0
\$39.	\$40.	7.90	5.30	2.80	.20	0	0	0	0	0	0	0
\$40.	\$41.	8.10	5.50	3.00	.40	0	0	0	0	0	0	0
\$41.	\$42.	8.30	5.70	3.20	.60	0	0	0	0	0	0	0
\$42.	\$43.	8.50	5.90	3.40	.80	0	0	0	0	0	0	0
\$43.	\$44.	8.70	6.10	3.60	1.00	0	0	0	0	0	0	0
\$44.	\$45.	8.90	6.30	3.80	1.20	0	0	0	0	0	0	0
\$45.	\$46.	9.10	6.50	4.00	1.40	0	0	0	0	0	0	0
\$46.	\$47.	9.30	6.70	4.20	1.60	0	0	0	0	0	0	0
\$47.	\$48.	9.50	6.90	4.40	1.80	0	0	0	0	0	0	0
\$48.	\$49.	9.70	7.10	4.60	2.00	0	0	0	0	0	0	0
\$49.	\$50.	9.90	7.30	4.80	2.20	0	0	0	0	0	0	0
\$50.	\$51.	10.10	7.50	5.00	2.40	0	0	0	0	0	0	0
\$51.	\$52.	10.30	7.70	5.20	2.60	0	0	0	0	0	0	0
\$52.	\$53.	10.50	7.90	5.40	2.80	.20	0	0	0	0	0	0
\$53.	\$54.	10.70	8.10	5.60	3.00	.40	0	0	0	0	0	0
\$54.	\$55.	10.90	8.30	5.80	3.20	.60	0	0	0	0	0	0
\$55.	\$56.	11.10	8.50	6.00	3.40	.80	0	0	0	0	0	0
\$56.	\$57.	11.30	8.70	6.20	3.60	1.00	0	0	0	0	0	0
\$57.	\$58.	11.50	8.90	6.40	3.80	1.20	0	0	0	0	0	0
\$58.	\$59.	11.70	9.10	6.60	4.00	1.40	0	0	0	0	0	0
\$59.	\$60.	11.90	9.30	6.80	4.20	1.60	0	0	0	0	0	0
\$60.	\$62.	12.20	9.60	7.10	4.50	1.90	0	0	0	0	0	0
\$62.	\$64.	12.60	10.00	7.50	4.90	2.30	0	0	0	0	0	0
\$64.	\$66.	13.00	10.40	7.90	5.30	2.70	.20	0	0	0	0	0
\$66.	\$68.	13.40	10.80	8.30	5.70	3.10	.60	0	0	0	0	0
\$68.	\$70.	13.80	11.20	8.70	6.10	3.50	1.00	0	0	0	0	0
\$70.	\$72.	14.20	11.60	9.10	6.50	3.90	1.40	0	0	0	0	0
\$72.	\$74.	14.60	12.00	9.50	6.90	4.30	1.80	0	0	0	0	0
\$74.	\$76.	15.00	12.40	9.90	7.30	4.70	2.20	0	0	0	0	0
\$76.	\$78.	15.40	12.80	10.30	7.70	5.10	2.60	0	0	0	0	0
\$78.	\$80.	15.80	13.20	10.70	8.10	5.50	3.00	.40	0	0	0	0
\$80.	\$82.	16.20	13.60	11.10	8.50	5.90	3.40	.80	0	0	0	0
\$82.	\$84.	16.60	14.00	11.50	8.90	6.30	3.80	1.20	0	0	0	0
\$84.	\$86.	17.00	14.40	11.90	9.30	6.70	4.20	1.60	0	0	0	0
\$86.	\$88.	17.40	14.80	12.30	9.70	7.10	4.60	2.00	0	0	0	0
\$88.	\$90.	17.80	15.20	12.70	10.10	7.50	5.00	2.40	0	0	0	0
\$90.	\$92.	18.20	15.60	13.10	10.50	7.90	5.40	2.80	.30	0	0	0
\$92.	\$94.	18.60	16.00	13.50	10.90	8.30	5.80	3.20	.70	0	0	0
\$94.	\$96.	19.00	16.40	13.90	11.30	8.70	6.20	3.60	1.10	0	0	0
\$96.	\$98.	19.40	16.80	14.30	11.70	9.10	6.60	4.00	1.50	0	0	0
\$98.	\$100.	19.80	17.20	14.70	12.10	9.50	7.00	4.40	1.90	0	0	0
\$100.	\$105.	20.50	17.90	15.40	12.80	10.20	7.70	5.10	2.60	0	0	0
\$105.	\$110.	21.50	18.90	16.40	13.80	11.20	8.70	6.10	3.60	1.00	0	0
\$110.	\$115.	22.50	19.90	17.40	14.80	12.20	9.70	7.10	4.60	2.00	0	0
\$115.	\$120.	23.50	20.90	18.40	15.80	13.20	10.70	8.10	5.60	3.00	.40	0
\$120.	\$125.	24.50	21.90	19.40	16.80	14.20	11.70	9.10	6.60	4.00	1.40	0
\$125.	\$130.	25.50	22.90	20.40	17.80	15.20	12.70	10.10	7.60	5.00	2.40	0
\$130.	\$135.	26.50	23.90	21.40	18.80	16.20	13.70	11.10	8.60	6.00	3.40	.90
\$135.	\$140.	27.50	24.90	22.40	19.80	17.20	14.70	12.10	9.60	7.00	4.40	1.90
\$140.	\$145.	28.50	25.90	23.40	20.80	18.20	15.70	13.10	10.60	8.00	5.40	2.90
\$145.	\$150.	29.50	26.90	24.40	21.80	19.20	16.70	14.10	11.60	9.00	6.40	3.90
\$150.	\$160.	31.00	28.40	25.90	23.30	20.70	18.20	15.60	13.10	10.50	7.90	5.40
\$160.	\$170.	33.00	30.40	27.90	25.30	22.70	20.20	17.60	15.10	12.50	9.90	7.40
\$170.	\$180.	35.00	32.40	29.90	27.30	24.70	22.20	19.60	17.10	14.50	11.90	9.40
\$180.	\$190.	37.00	34.40	31.90	29.30	26.70	24.20	21.60	19.10	16.50	13.90	11.40
\$190.	\$200.	39.00	36.40	33.90	31.30	28.70	26.20	23.60	21.10	18.50	15.90	13.40
\$200 and over		20 percent of the excess over \$200 plus—										
		40.00	37.40	34.80	32.20	29.60	27.00	24.40	21.80	19.20	16.60	14.00

"If the payroll period with respect to an employee is biweekly

And the wages are—		And the number of withholding exemptions claimed is—										
At least	But less than	0	1	2	3	4	5	6	7	8	9	10 or more
The amount of tax to be withheld shall be—												
\$0	\$26	20% of wages	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
\$26	\$28	\$5.40	.30	0	0	0	0	0	0	0	0	0
\$28	\$30	5.80	.70	0	0	0	0	0	0	0	0	0
\$30	\$32	6.20	1.10	0	0	0	0	0	0	0	0	0
\$32	\$34	6.60	1.50	0	0	0	0	0	0	0	0	0
\$34	\$36	7.00	1.90	0	0	0	0	0	0	0	0	0
\$36	\$38	7.40	2.30	0	0	0	0	0	0	0	0	0
\$38	\$40	7.80	2.70	0	0	0	0	0	0	0	0	0
\$40	\$42	8.20	3.10	0	0	0	0	0	0	0	0	0
\$42	\$44	8.60	3.50	0	0	0	0	0	0	0	0	0
\$44	\$46	9.00	3.90	0	0	0	0	0	0	0	0	0
\$46	\$48	9.40	4.30	0	0	0	0	0	0	0	0	0
\$48	\$50	9.80	4.70	0	0	0	0	0	0	0	0	0
\$50	\$52	10.20	5.10	0	0	0	0	0	0	0	0	0
\$52	\$54	10.60	5.50	.30	0	0	0	0	0	0	0	0
\$54	\$56	11.00	5.90	.70	0	0	0	0	0	0	0	0
\$56	\$58	11.40	6.30	1.10	0	0	0	0	0	0	0	0
\$58	\$60	11.80	6.70	1.50	0	0	0	0	0	0	0	0
\$60	\$62	12.20	7.10	1.90	0	0	0	0	0	0	0	0
\$62	\$64	12.60	7.50	2.30	0	0	0	0	0	0	0	0
\$64	\$66	13.00	7.90	2.70	0	0	0	0	0	0	0	0
\$66	\$68	13.40	8.30	3.10	0	0	0	0	0	0	0	0
\$68	\$70	13.80	8.70	3.50	0	0	0	0	0	0	0	0
\$70	\$72	14.20	9.10	3.90	0	0	0	0	0	0	0	0
\$72	\$74	14.60	9.50	4.30	0	0	0	0	0	0	0	0
\$74	\$76	15.00	9.90	4.70	0	0	0	0	0	0	0	0
\$76	\$78	15.40	10.30	5.10	0	0	0	0	0	0	0	0
\$78	\$80	15.80	10.70	5.50	.40	0	0	0	0	0	0	0
\$80	\$82	16.20	11.10	5.90	.80	0	0	0	0	0	0	0
\$82	\$84	16.60	11.50	6.30	1.20	0	0	0	0	0	0	0
\$84	\$86	17.00	11.90	6.70	1.60	0	0	0	0	0	0	0
\$86	\$88	17.40	12.30	7.10	2.00	0	0	0	0	0	0	0
\$88	\$90	17.80	12.70	7.50	2.40	0	0	0	0	0	0	0
\$90	\$92	18.20	13.10	7.90	2.80	0	0	0	0	0	0	0
\$92	\$94	18.60	13.50	8.30	3.20	0	0	0	0	0	0	0
\$94	\$96	19.00	13.90	8.70	3.60	0	0	0	0	0	0	0
\$96	\$98	19.40	14.30	9.10	4.00	0	0	0	0	0	0	0
\$98	\$100	19.80	14.70	9.50	4.40	0	0	0	0	0	0	0
\$100	\$102	20.20	15.10	9.90	4.80	0	0	0	0	0	0	0
\$102	\$104	20.60	15.50	10.30	5.20	.10	0	0	0	0	0	0
\$104	\$106	21.00	15.90	10.70	5.60	.50	0	0	0	0	0	0
\$106	\$108	21.40	16.30	11.10	6.00	.90	0	0	0	0	0	0
\$108	\$110	21.80	16.70	11.50	6.40	1.30	0	0	0	0	0	0
\$110	\$112	22.20	17.10	11.90	6.80	1.70	0	0	0	0	0	0
\$112	\$114	22.60	17.50	12.30	7.20	2.10	0	0	0	0	0	0
\$114	\$116	23.00	17.90	12.70	7.60	2.50	0	0	0	0	0	0
\$116	\$118	23.40	18.30	13.10	8.00	2.90	0	0	0	0	0	0
\$118	\$120	23.80	18.70	13.50	8.40	3.30	0	0	0	0	0	0
\$120	\$124	24.40	19.30	14.10	9.00	3.90	0	0	0	0	0	0
\$124	\$128	25.20	20.10	14.90	9.80	4.70	0	0	0	0	0	0
\$128	\$132	26.00	20.90	15.70	10.60	5.50	.40	0	0	0	0	0
\$132	\$136	26.80	21.70	16.50	11.40	6.30	1.20	0	0	0	0	0
\$136	\$140	27.60	22.50	17.30	12.20	7.10	2.00	0	0	0	0	0
\$140	\$144	28.40	23.30	18.10	13.00	7.90	2.80	0	0	0	0	0
\$144	\$148	29.20	24.10	18.90	13.80	8.70	3.60	0	0	0	0	0
\$148	\$152	30.00	24.90	19.70	14.60	9.50	4.40	0	0	0	0	0
\$152	\$156	30.80	25.70	20.50	15.40	10.30	5.20	0	0	0	0	0
\$156	\$160	31.60	26.50	21.30	16.20	11.10	6.00	.80	0	0	0	0
\$160	\$164	32.40	27.30	22.10	17.00	11.90	6.80	1.60	0	0	0	0
\$164	\$168	33.20	28.10	22.90	17.80	12.70	7.60	2.40	0	0	0	0
\$168	\$172	34.00	28.90	23.70	18.60	13.50	8.40	3.20	0	0	0	0
\$172	\$176	34.80	29.70	24.50	19.40	14.30	9.20	4.00	0	0	0	0
\$176	\$180	35.60	30.50	25.30	20.20	15.10	10.00	4.80	0	0	0	0
\$180	\$184	36.40	31.30	26.10	21.00	15.90	10.80	5.60	.50	0	0	0
\$184	\$188	37.20	32.10	26.90	21.80	16.70	11.60	6.40	1.30	0	0	0
\$188	\$192	38.00	32.90	27.70	22.60	17.50	12.40	7.20	2.10	0	0	0
\$192	\$196	38.80	33.70	28.50	23.40	18.30	13.20	8.00	2.90	0	0	0
\$196	\$200	39.60	34.50	29.30	24.20	19.10	14.00	8.80	3.70	0	0	0
\$200	\$210	41.00	35.90	30.70	25.60	20.50	15.40	10.20	5.10	0	0	0
\$210	\$220	43.00	37.90	32.70	27.60	22.50	17.40	12.20	7.10	2.00	0	0
\$220	\$230	45.00	39.90	34.70	29.60	24.50	19.40	14.20	9.10	4.00	0	0
\$230	\$240	47.00	41.90	36.70	31.60	26.50	21.40	16.20	11.10	6.00	.80	0
\$240	\$250	49.00	43.90	38.70	33.60	28.50	23.40	18.20	13.10	8.00	2.80	0
\$250	\$260	51.00	45.90	40.70	35.60	30.50	25.40	20.20	15.10	10.00	4.80	0
\$260	\$270	53.00	47.90	42.70	37.60	32.50	27.40	22.20	17.10	12.00	6.80	1.70
\$270	\$280	55.00	49.90	44.70	39.60	34.50	29.40	24.20	19.10	14.00	8.80	3.70
\$280	\$290	57.00	51.90	46.70	41.60	36.50	31.40	26.20	21.10	16.00	10.80	5.70
\$290	\$300	59.00	53.90	48.70	43.60	38.50	33.40	28.20	23.10	18.00	12.80	7.70
\$300	\$320	62.00	56.90	51.70	46.60	41.50	36.40	31.20	26.10	21.00	15.80	10.70
\$320	\$340	66.00	60.90	55.70	50.60	45.50	40.40	35.20	30.10	25.00	19.80	14.70
\$340	\$360	70.00	64.90	59.70	54.60	49.50	44.40	39.20	34.10	29.00	23.80	18.70
\$360	\$380	74.00	68.90	63.70	58.60	53.50	48.40	43.20	38.10	33.00	27.80	22.70
\$380	\$400	78.00	72.90	67.70	62.60	57.50	52.40	47.20	42.10	37.00	31.80	26.70
\$400 and over		20 percent of the excess over \$400 plus—										
		80.00	74.90	69.70	64.60	59.50	54.40	49.20	44.10	39.00	33.80	28.70

"If the payroll period with respect to an employee is semimonthly"

And the wages are—		And the number of withholding exemptions claimed is—										
At least	But less than	0	1	2	3	4	5	6	7	8	9	10 or more
The amount of tax to be withheld shall be—												
\$0	\$28	20% of wages \$5.80	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
\$28	\$30	6.20	.20	0	0	0	0	0	0	0	0	0
\$30	\$32	6.60	1.00	0	0	0	0	0	0	0	0	0
\$32	\$34	7.00	1.40	0	0	0	0	0	0	0	0	0
\$34	\$36	7.40	1.80	0	0	0	0	0	0	0	0	0
\$36	\$38	7.80	2.20	0	0	0	0	0	0	0	0	0
\$38	\$40	8.20	2.60	0	0	0	0	0	0	0	0	0
\$40	\$42	8.60	3.00	0	0	0	0	0	0	0	0	0
\$42	\$44	9.00	3.40	0	0	0	0	0	0	0	0	0
\$44	\$46	9.40	3.80	0	0	0	0	0	0	0	0	0
\$46	\$48	9.80	4.20	0	0	0	0	0	0	0	0	0
\$48	\$50	10.20	4.60	0	0	0	0	0	0	0	0	0
\$50	\$52	10.60	5.00	0	0	0	0	0	0	0	0	0
\$52	\$54	11.00	5.40	0	0	0	0	0	0	0	0	0
\$54	\$56	11.40	5.80	.30	0	0	0	0	0	0	0	0
\$56	\$58	11.80	6.20	.70	0	0	0	0	0	0	0	0
\$58	\$60	12.20	6.60	1.10	0	0	0	0	0	0	0	0
\$60	\$62	12.60	7.00	1.50	0	0	0	0	0	0	0	0
\$62	\$64	13.00	7.40	1.90	0	0	0	0	0	0	0	0
\$64	\$66	13.40	7.80	2.30	0	0	0	0	0	0	0	0
\$66	\$68	13.80	8.20	2.70	0	0	0	0	0	0	0	0
\$68	\$70	14.20	8.60	3.10	0	0	0	0	0	0	0	0
\$70	\$72	14.60	9.00	3.50	0	0	0	0	0	0	0	0
\$72	\$74	15.00	9.40	3.90	0	0	0	0	0	0	0	0
\$74	\$76	15.40	9.80	4.30	0	0	0	0	0	0	0	0
\$76	\$78	15.80	10.20	4.70	0	0	0	0	0	0	0	0
\$78	\$80	16.20	10.60	5.10	0	0	0	0	0	0	0	0
\$80	\$82	16.60	11.00	5.50	0	0	0	0	0	0	0	0
\$82	\$84	17.00	11.40	5.90	.30	0	0	0	0	0	0	0
\$84	\$86	17.40	11.80	6.30	.70	0	0	0	0	0	0	0
\$86	\$88	17.80	12.20	6.70	1.10	0	0	0	0	0	0	0
\$88	\$90	18.20	12.60	7.10	1.50	0	0	0	0	0	0	0
\$90	\$92	18.60	13.00	7.50	1.90	0	0	0	0	0	0	0
\$92	\$94	19.00	13.40	7.90	2.30	0	0	0	0	0	0	0
\$94	\$96	19.40	13.80	8.30	2.70	0	0	0	0	0	0	0
\$96	\$98	19.80	14.20	8.70	3.10	0	0	0	0	0	0	0
\$98	\$100	20.20	14.60	9.10	3.50	0	0	0	0	0	0	0
\$100	\$102	20.60	15.00	9.50	3.90	0	0	0	0	0	0	0
\$102	\$104	21.00	15.40	9.90	4.30	0	0	0	0	0	0	0
\$104	\$106	21.40	15.80	10.30	4.70	0	0	0	0	0	0	0
\$106	\$108	21.80	16.20	10.70	5.10	0	0	0	0	0	0	0
\$108	\$110	22.20	16.60	11.10	5.50	0	0	0	0	0	0	0
\$110	\$112	22.60	17.00	11.50	5.90	.40	0	0	0	0	0	0
\$112	\$114	23.00	17.40	11.90	6.30	.80	0	0	0	0	0	0
\$114	\$116	23.40	17.80	12.30	6.70	1.20	0	0	0	0	0	0
\$116	\$118	23.80	18.20	12.70	7.10	1.60	0	0	0	0	0	0
\$118	\$120	24.20	18.60	13.10	7.50	2.00	0	0	0	0	0	0
\$120	\$122	24.60	19.00	13.50	7.90	2.40	0	0	0	0	0	0
\$122	\$124	25.00	19.40	13.90	8.30	2.80	0	0	0	0	0	0
\$124	\$126	25.40	19.80	14.30	8.70	3.20	0	0	0	0	0	0
\$126	\$128	26.00	20.40	14.90	9.30	3.80	0	0	0	0	0	0
\$128	\$130	26.60	21.00	15.50	10.00	4.40	0	0	0	0	0	0
\$130	\$132	27.20	21.60	16.10	10.60	5.00	0	0	0	0	0	0
\$132	\$134	27.80	22.20	16.70	11.20	5.60	0	0	0	0	0	0
\$134	\$136	28.40	22.80	17.30	11.70	6.20	.60	0	0	0	0	0
\$136	\$138	29.00	23.40	17.90	12.30	6.80	1.40	0	0	0	0	0
\$138	\$140	29.60	24.00	18.50	12.90	7.40	2.20	0	0	0	0	0
\$140	\$142	30.20	24.60	19.10	13.50	8.00	3.00	0	0	0	0	0
\$142	\$144	30.80	25.20	19.70	14.10	8.60	3.80	0	0	0	0	0
\$144	\$146	31.40	25.80	20.30	14.70	9.20	4.60	0	0	0	0	0
\$146	\$148	32.00	26.40	20.90	15.30	9.80	5.40	0	0	0	0	0
\$148	\$150	32.60	27.00	21.50	15.90	10.40	6.20	0	0	0	0	0
\$150	\$152	33.20	27.60	22.10	16.50	11.00	7.00	0	0	0	0	0
\$152	\$154	33.80	28.20	22.70	17.10	11.60	7.80	.70	0	0	0	0
\$154	\$156	34.40	28.80	23.30	17.70	12.20	8.60	1.50	0	0	0	0
\$156	\$158	35.00	29.40	23.90	18.30	12.80	9.40	2.30	0	0	0	0
\$158	\$160	35.60	30.00	24.50	18.90	13.40	10.20	3.10	0	0	0	0
\$160	\$162	36.20	30.60	25.10	19.50	14.00	11.00	3.90	0	0	0	0
\$162	\$164	36.80	31.20	25.70	20.10	14.60	11.80	4.70	0	0	0	0
\$164	\$166	37.40	31.80	26.30	20.70	15.20	12.60	5.50	0	0	0	0
\$166	\$168	38.00	32.40	26.90	21.30	15.80	13.40	6.30	0	0	0	0
\$168	\$170	38.60	33.00	27.50	21.90	16.40	14.20	7.10	0	0	0	0
\$170	\$172	39.20	33.60	28.10	22.50	17.00	15.00	7.90	0	0	0	0
\$172	\$174	39.80	34.20	28.70	23.10	17.60	15.80	8.70	0	0	0	0
\$174	\$176	40.40	34.80	29.30	23.70	18.20	16.60	9.50	0	0	0	0
\$176	\$178	41.00	35.40	29.90	24.30	18.80	17.40	10.30	0	0	0	0
\$178	\$180	41.60	36.00	30.50	24.90	19.40	18.20	11.10	0	0	0	0
\$180	\$182	42.20	36.60	31.10	25.50	20.00	19.00	11.90	0	0	0	0
\$182	\$184	42.80	37.20	31.70	26.10	20.60	19.80	12.70	0	0	0	0
\$184	\$186	43.40	37.80	32.30	26.70	21.20	20.60	13.50	0	0	0	0
\$186	\$188	44.00	38.40	32.90	27.30	21.80	21.40	14.30	0	0	0	0
\$188	\$190	44.60	39.00	33.50	27.90	22.40	22.20	15.10	0	0	0	0
\$190	\$192	45.20	39.60	34.10	28.50	23.00	23.00	15.90	0	0	0	0
\$192	\$194	45.80	40.20	34.70	29.10	23.60	23.80	16.70	0	0	0	0
\$194	\$196	46.40	40.80	35.30	29.70	24.20	24.60	17.50	0	0	0	0
\$196	\$198	47.00	41.40	35.90	30.30	24.80	25.40	18.30	0	0	0	0
\$198	\$200	47.60	42.00	36.50	30.90	25.40	26.20	19.10	0	0	0	0
\$200	\$202	48.20	42.60	37.10	31.50	26.00	27.00	19.90	0	0	0	0
\$202	\$204	48.80	43.20	37.70	32.10	26.60	27.80	20.70	0	0	0	0
\$204	\$206	49.40	43.80	38.30	32.70	27.20	28.60	21.50	0	0	0	0
\$206	\$208	50.00	44.4									

"If the payroll period with respect to an employee is monthly

And the wages are—		And the number of withholding exemptions claimed is—										
At least—	But less than—	0	1	2	3	4	5	6	7	8	9	10 or more
The amount of tax to be withheld shall be—												
\$0	\$56	20% of wages	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
\$56	\$60	\$11.60	.50	0	0	0	0	0	0	0	0	0
\$60	\$64	12.40	1.30	0	0	0	0	0	0	0	0	0
\$64	\$68	13.20	2.10	0	0	0	0	0	0	0	0	0
\$68	\$72	14.00	2.90	0	0	0	0	0	0	0	0	0
\$72	\$76	14.80	3.70	0	0	0	0	0	0	0	0	0
\$76	\$80	15.60	4.50	0	0	0	0	0	0	0	0	0
\$80	\$84	16.40	5.30	0	0	0	0	0	0	0	0	0
\$84	\$88	17.20	6.10	0	0	0	0	0	0	0	0	0
\$88	\$92	18.00	6.90	0	0	0	0	0	0	0	0	0
\$92	\$96	18.80	7.70	0	0	0	0	0	0	0	0	0
\$96	\$100	19.60	8.50	0	0	0	0	0	0	0	0	0
\$100	\$104	20.40	9.30	0	0	0	0	0	0	0	0	0
\$104	\$108	21.20	10.10	0	0	0	0	0	0	0	0	0
\$108	\$112	22.00	10.90	0	0	0	0	0	0	0	0	0
\$112	\$116	22.80	11.70	.60	0	0	0	0	0	0	0	0
\$116	\$120	23.60	12.50	1.40	0	0	0	0	0	0	0	0
\$120	\$124	24.40	13.30	2.20	0	0	0	0	0	0	0	0
\$124	\$128	25.20	14.10	3.00	0	0	0	0	0	0	0	0
\$128	\$132	26.00	14.90	3.80	0	0	0	0	0	0	0	0
\$132	\$136	26.80	15.70	4.60	0	0	0	0	0	0	0	0
\$136	\$140	27.60	16.50	5.40	0	0	0	0	0	0	0	0
\$140	\$144	28.40	17.30	6.20	0	0	0	0	0	0	0	0
\$144	\$148	29.20	18.10	7.00	0	0	0	0	0	0	0	0
\$148	\$152	30.00	18.90	7.80	0	0	0	0	0	0	0	0
\$152	\$156	30.80	19.70	8.60	0	0	0	0	0	0	0	0
\$156	\$160	31.60	20.50	9.40	0	0	0	0	0	0	0	0
\$160	\$164	32.40	21.30	10.20	0	0	0	0	0	0	0	0
\$164	\$168	33.20	22.10	11.00	0	0	0	0	0	0	0	0
\$168	\$172	34.00	22.90	11.80	.70	0	0	0	0	0	0	0
\$172	\$176	34.80	23.70	12.60	1.50	0	0	0	0	0	0	0
\$176	\$180	35.60	24.50	13.40	2.30	0	0	0	0	0	0	0
\$180	\$184	36.40	25.30	14.20	3.10	0	0	0	0	0	0	0
\$184	\$188	37.20	26.10	15.00	3.90	0	0	0	0	0	0	0
\$188	\$192	38.00	26.90	15.80	4.70	0	0	0	0	0	0	0
\$192	\$196	38.80	27.70	16.60	5.50	0	0	0	0	0	0	0
\$196	\$200	39.60	28.50	17.40	6.30	0	0	0	0	0	0	0
\$200	\$204	40.40	29.30	18.20	7.10	0	0	0	0	0	0	0
\$204	\$208	41.20	30.10	19.00	7.90	0	0	0	0	0	0	0
\$208	\$212	42.00	30.90	19.80	8.70	0	0	0	0	0	0	0
\$212	\$216	42.80	31.70	20.60	9.50	0	0	0	0	0	0	0
\$216	\$220	43.60	32.50	21.40	10.30	0	0	0	0	0	0	0
\$220	\$224	44.40	33.30	22.20	11.10	0	0	0	0	0	0	0
\$224	\$228	45.20	34.10	23.00	11.90	.80	0	0	0	0	0	0
\$228	\$232	46.00	34.90	23.80	12.70	1.60	0	0	0	0	0	0
\$232	\$236	46.80	35.70	24.60	13.50	2.40	0	0	0	0	0	0
\$236	\$240	47.60	36.50	25.40	14.30	3.20	0	0	0	0	0	0
\$240	\$244	48.40	37.30	26.20	15.10	4.00	0	0	0	0	0	0
\$244	\$248	49.20	38.10	27.00	15.90	4.80	0	0	0	0	0	0
\$248	\$252	50.00	38.90	27.80	16.70	5.60	0	0	0	0	0	0
\$252	\$256	50.80	39.70	28.60	17.50	6.40	0	0	0	0	0	0
\$256	\$260	51.60	40.50	29.40	18.30	7.20	0	0	0	0	0	0
\$260	\$264	52.40	41.30	30.20	19.10	8.00	0	0	0	0	0	0
\$264	\$272	53.60	42.50	31.40	20.30	9.20	0	0	0	0	0	0
\$272	\$280	55.20	44.10	33.00	21.90	10.80	0	0	0	0	0	0
\$280	\$288	56.80	45.70	34.60	23.50	12.40	1.20	0	0	0	0	0
\$288	\$296	58.40	47.30	36.20	25.10	14.00	2.80	0	0	0	0	0
\$296	\$304	60.00	48.90	37.80	26.70	15.60	4.40	0	0	0	0	0
\$304	\$312	61.60	50.50	39.40	28.30	17.20	6.00	0	0	0	0	0
\$312	\$320	63.20	52.10	41.00	29.90	18.80	7.60	0	0	0	0	0
\$320	\$328	64.80	53.70	42.60	31.50	20.40	9.20	0	0	0	0	0
\$328	\$336	66.40	55.30	44.20	33.10	22.00	10.80	0	0	0	0	0
\$336	\$344	68.00	56.90	45.80	34.70	23.60	12.40	1.30	0	0	0	0
\$344	\$352	69.60	58.50	47.40	36.30	25.20	14.00	2.90	0	0	0	0
\$352	\$360	71.20	60.10	49.00	37.90	26.80	15.60	4.50	0	0	0	0
\$360	\$368	72.80	61.70	50.60	39.50	28.40	17.20	6.10	0	0	0	0
\$368	\$376	74.40	63.30	52.20	41.10	30.00	18.80	7.70	0	0	0	0
\$376	\$384	76.00	64.90	53.80	42.70	31.60	20.40	9.30	0	0	0	0
\$384	\$392	77.60	66.50	55.40	44.30	33.20	22.00	10.90	0	0	0	0
\$392	\$400	79.20	68.10	57.00	45.90	34.80	23.60	12.50	1.40	0	0	0
\$400	\$420	82.00	70.90	59.80	48.70	37.60	26.40	15.30	4.20	0	0	0
\$420	\$440	86.00	74.90	63.80	52.70	41.60	30.40	19.30	8.20	0	0	0
\$440	\$460	90.00	78.90	67.80	56.70	45.60	34.40	23.30	12.20	1.10	0	0
\$460	\$480	94.00	82.90	71.80	60.70	49.60	38.40	27.30	16.20	5.10	0	0
\$480	\$500	98.00	86.90	75.80	64.70	53.60	42.40	31.30	20.20	9.10	0	0
\$500	\$520	102.00	90.90	79.80	68.70	57.60	46.40	35.30	24.20	13.10	2.00	0
\$520	\$540	106.00	94.90	83.80	72.70	61.60	50.40	39.30	28.20	17.10	6.00	0
\$540	\$560	110.00	98.90	87.80	76.70	65.60	54.40	43.30	32.20	21.10	10.00	0
\$560	\$580	114.00	102.90	91.80	80.70	69.60	58.40	47.30	36.20	25.10	14.00	2.90
\$580	\$600	118.00	106.90	95.80	84.70	73.60	62.40	51.30	40.20	29.10	18.00	6.90
\$600	\$640	124.00	112.90	101.80	90.70	79.60	68.40	57.30	46.20	35.10	24.00	12.90
\$640	\$680	132.00	120.90	109.80	98.70	87.60	76.40	65.30	54.20	43.10	32.00	20.90
\$680	\$720	140.00	128.90	117.80	106.70	95.60	84.40	73.30	62.20	51.10	40.00	28.90
\$720	\$760	148.00	136.90	125.80	114.70	103.60	92.40	81.30	70.20	59.10	48.00	36.90
\$760	\$800	156.00	144.90	133.80	122.70	111.60	100.40	89.30	78.20	67.10	56.00	44.90
\$800	\$840	164.00	152.90	141.80	130.70	119.60	108.40	97.30	86.20	75.10	64.00	52.90
\$840	\$880	172.00	160.90	149.80	138.70	127.60	116.40	105.30	94.			

"If the payroll period with respect to an employee is a daily payroll period or a miscellaneous payroll period

And the wages divided by the number of days in such period are—		And the number of withholding exemptions claimed is—											
		0	1	2	3	4	5	6	7	8	9	10 or more	
At least—	But less than—	The amount of tax to be withheld shall be the following amount multiplied by the number of days in such period—											
\$0	\$2.00	20% of wages \$0.40	\$0.05	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
\$2.00	\$2.25	.45	.10	0	0	0	0	0	0	0	0	0	0
\$2.25	\$2.50	.50	.15	0	0	0	0	0	0	0	0	0	0
\$2.50	\$2.75	.55	.20	0	0	0	0	0	0	0	0	0	0
\$2.75	\$3.00	.60	.25	0	0	0	0	0	0	0	0	0	0
\$3.00	\$3.25	.65	.30	0	0	0	0	0	0	0	0	0	0
\$3.25	\$3.50	.70	.35	0	0	0	0	0	0	0	0	0	0
\$3.50	\$3.75	.75	.40	.05	0	0	0	0	0	0	0	0	0
\$3.75	\$4.00	.80	.45	.10	0	0	0	0	0	0	0	0	0
\$4.00	\$4.25	.85	.50	.15	0	0	0	0	0	0	0	0	0
\$4.25	\$4.50	.90	.55	.20	0	0	0	0	0	0	0	0	0
\$4.50	\$4.75	.95	.60	.25	0	0	0	0	0	0	0	0	0
\$4.75	\$5.00	1.00	.65	.30	0	0	0	0	0	0	0	0	0
\$5.00	\$5.25	1.05	.70	.35	0	0	0	0	0	0	0	0	0
\$5.25	\$5.50	1.10	.75	.40	.05	0	0	0	0	0	0	0	0
\$5.50	\$5.75	1.15	.80	.45	.10	0	0	0	0	0	0	0	0
\$5.75	\$6.00	1.20	.85	.50	.15	0	0	0	0	0	0	0	0
\$6.00	\$6.25	1.25	.90	.55	.20	0	0	0	0	0	0	0	0
\$6.25	\$6.50	1.30	.95	.60	.25	0	0	0	0	0	0	0	0
\$6.50	\$6.75	1.35	1.00	.65	.30	0	0	0	0	0	0	0	0
\$6.75	\$7.00	1.40	1.05	.70	.35	0	0	0	0	0	0	0	0
\$7.00	\$7.25	1.45	1.10	.75	.40	0	0	0	0	0	0	0	0
\$7.25	\$7.50	1.50	1.15	.80	.45	.05	0	0	0	0	0	0	0
\$7.50	\$7.75	1.55	1.20	.85	.50	.10	0	0	0	0	0	0	0
\$7.75	\$8.00	1.60	1.25	.90	.55	.15	0	0	0	0	0	0	0
\$8.00	\$8.25	1.65	1.30	.95	.60	.20	0	0	0	0	0	0	0
\$8.25	\$8.50	1.70	1.35	1.00	.65	.25	0	0	0	0	0	0	0
\$8.50	\$8.75	1.75	1.40	1.05	.70	.30	0	0	0	0	0	0	0
\$8.75	\$9.00	1.80	1.45	1.10	.75	.35	0	0	0	0	0	0	0
\$9.00	\$9.25	1.85	1.50	1.15	.80	.40	.05	0	0	0	0	0	0
\$9.25	\$9.50	1.90	1.55	1.20	.85	.45	.10	0	0	0	0	0	0
\$9.50	\$9.75	1.95	1.60	1.25	.90	.50	.15	0	0	0	0	0	0
\$9.75	\$10.00	2.05	1.70	1.30	.95	.60	.20	0	0	0	0	0	0
\$10.00	\$10.50	2.15	1.80	1.40	1.05	.70	.30	0	0	0	0	0	0
\$10.50	\$11.00	2.25	1.90	1.50	1.15	.80	.40	.05	0	0	0	0	0
\$11.00	\$11.50	2.35	2.00	1.60	1.25	.90	.50	.15	0	0	0	0	0
\$11.50	\$12.00	2.45	2.10	1.70	1.35	1.00	.60	.25	0	0	0	0	0
\$12.00	\$12.50	2.55	2.20	1.80	1.45	1.10	.70	.35	0	0	0	0	0
\$12.50	\$13.00	2.65	2.30	1.90	1.55	1.20	.80	.45	.10	0	0	0	0
\$13.00	\$13.50	2.75	2.40	2.00	1.65	1.30	.90	.55	.20	0	0	0	0
\$13.50	\$14.00	2.85	2.50	2.10	1.75	1.40	1.00	.65	.30	0	0	0	0
\$14.00	\$14.50	2.95	2.60	2.20	1.85	1.50	1.10	.75	.40	.05	0	0	0
\$14.50	\$15.00	3.05	2.70	2.30	1.95	1.60	1.20	.85	.50	.15	0	0	0
\$15.00	\$15.50	3.15	2.80	2.40	2.05	1.70	1.30	.95	.60	.25	0	0	0
\$15.50	\$16.00	3.25	2.90	2.50	2.15	1.80	1.40	1.05	.70	.35	0	0	0
\$16.00	\$16.50	3.35	3.00	2.60	2.25	1.90	1.50	1.15	.80	.45	.05	0	0
\$16.50	\$17.00	3.45	3.10	2.70	2.35	2.00	1.60	1.25	.90	.55	.15	0	0
\$17.00	\$17.50	3.55	3.20	2.80	2.45	2.10	1.70	1.35	1.00	.65	.25	0	0
\$17.50	\$18.00	3.65	3.30	2.90	2.55	2.20	1.80	1.45	1.10	.75	.35	0	0
\$18.00	\$18.50	3.75	3.40	3.00	2.65	2.30	1.90	1.55	1.20	.85	.45	.10	0
\$18.50	\$19.00	3.85	3.50	3.10	2.75	2.40	2.00	1.65	1.30	.95	.55	.20	0
\$19.00	\$19.50	3.95	3.60	3.20	2.85	2.50	2.10	1.75	1.40	1.05	.65	.30	0
\$19.50	\$20.00	4.10	3.75	3.35	3.00	2.65	2.25	1.90	1.55	1.20	.80	.45	.10
\$20.00	\$21.00	4.30	3.95	3.55	3.20	2.85	2.45	2.10	1.75	1.40	1.00	.65	.25
\$21.00	\$22.00	4.50	4.15	3.75	3.40	3.05	2.65	2.30	1.95	1.60	1.20	.85	.35
\$22.00	\$23.00	4.70	4.35	3.95	3.60	3.25	2.85	2.50	2.15	1.80	1.40	1.05	.45
\$23.00	\$24.00	4.90	4.55	4.15	3.80	3.45	3.05	2.70	2.35	2.00	1.60	1.25	.55
\$24.00	\$25.00	5.10	4.75	4.35	4.00	3.65	3.25	2.90	2.55	2.20	1.80	1.45	.65
\$25.00	\$26.00	5.30	4.95	4.55	4.20	3.85	3.45	3.10	2.75	2.40	2.00	1.65	.75
\$26.00	\$27.00	5.50	5.15	4.75	4.40	4.05	3.65	3.30	2.95	2.60	2.20	1.85	.85
\$27.00	\$28.00	5.70	5.35	4.95	4.60	4.25	3.85	3.50	3.15	2.80	2.40	2.05	.95
\$28.00	\$29.00	5.90	5.55	5.15	4.80	4.45	4.05	3.70	3.35	3.00	2.60	2.25	1.05
\$29.00	\$30.00												
\$30 and over		20 percent of the excess over \$30 plus—											
		6.00	5.65	5.25	4.90	4.55	4.15	3.80	3.45	3.10	2.70	2.35	

"(B) Wages paid after December 31, 1953: At the election of the employer with respect to any employee, the employer shall deduct and withhold upon the wages paid to such employee after December 31, 1953, a tax determined in accordance with the following employee after December 31, 1953, a tax required to be deducted and withheld under subsection (a)."

The next amendment was, on page 113, line 5, to change the section number from "223" to "203."

The next amendment was, on page 113, line 20, to change the section number from "224" to "204"; in line 21, after the word "this", to strike out "part" and insert "title", and in line 22, after the word "after", to strike out "September" and insert "November."

The next amendment was, under the heading "Title III—Miscellaneous income tax

amendments," on page 114, after line 6, to strike out:

"(c) Head of household.

"(1) Rates of surtax: In the case of taxable years beginning after August 31, 1951, there shall be levied, collected, and paid for each taxable year upon the surtax net income of every individual who is the head of a household the surtax shown in the following table:

"If the surtax net income is:

Not over \$2,000— 17 percent of the surtax net income.

Over \$2,000 but not over \$4,000. \$340, plus 18 percent of excess over \$2,000.

Over \$4,000 but not over \$6,000. \$700, plus 21 percent of excess over \$4,000.

"If the surtax net income is:

Over \$6,000 but not over \$8,000. The surtax shall be: \$1,120, plus 23 percent of excess over \$6,000.

Over \$8,000 but not over \$10,000. \$1,580, plus 27 percent of excess over \$8,000.

Over \$10,000 but not over \$12,000. \$2,120, plus 29 percent of excess over \$10,000.

Over \$12,000 but not over \$14,000. \$2,700, plus 33 percent of excess over \$12,000.

Over \$14,000 but not over \$16,000. \$3,360, plus 36 percent of excess over \$14,000.

Over \$16,000 but not over \$18,000. \$4,080, plus 39 percent of excess over \$16,000.

"If the surtax net income is:		The surtax shall be:	
Over \$18,000 but not over \$20,000.		\$4,860, plus 40 percent of excess over \$18,000.	
Over \$20,000 but not over \$22,000.		\$5,660, plus 44 percent of excess over \$20,000.	
Over \$22,000 but not over \$24,000.		\$6,540, plus 46 percent of excess over \$22,000.	
Over \$24,000 but not over \$26,000.		\$7,460, plus 48 percent of excess over \$24,000.	
Over \$26,000 but not over \$28,000.		\$8,420, plus 49 percent of excess over \$26,000.	
Over \$28,000 but not over \$32,000.		\$9,400, plus 52 percent of excess over \$28,000.	
Over \$32,000 but not over \$36,000.		\$11,480, plus 54 percent of excess over \$32,000.	
Over \$36,000 but not over \$40,000.		\$13,640, plus 57 percent of excess over \$36,000.	
Over \$40,000 but not over \$44,000.		\$15,920, plus 60 percent of excess over \$40,000.	
Over \$44,000 but not over \$50,000.		\$18,320, plus 62 percent of excess over \$44,000.	
Over \$50,000 but not over \$60,000.		\$22,040, plus 65 percent of excess over \$50,000.	
Over \$60,000 but not over \$70,000.		\$28,540, plus 68 percent of excess over \$60,000.	
Over \$70,000 but not over \$80,000.		\$35,340, plus 71 percent of excess over \$70,000.	
Over \$80,000 but not over \$90,000.		\$42,440, plus 74 percent of excess over \$80,000.	
Over \$90,000 but not over \$100,000.		\$49,840, plus 76 percent of excess over \$90,000.	
Over \$100,000 but not over \$120,000.		\$57,440, plus 79 percent of excess over \$100,000.	
Over \$120,000 but not over \$150,000.		\$73,240, plus 81 percent of excess over \$120,000.	
Over \$150,000 but not over \$160,000.		\$97,540, plus 83 percent of excess over \$150,000.	
Over \$160,000 but not over \$180,000.		\$105,840, plus 84 percent of excess over \$160,000.	
Over \$180,000 but not over \$200,000.		\$122,640, plus 85 percent of excess over \$180,000.	
Over \$200,000 but not over \$300,000.		\$139,640, plus 87 percent of excess over \$200,000.	
Over \$300,000-----		\$226,640, plus 88 percent of excess over \$300,000.	

In the case of the head of a household whose surtax net income for the taxable year is over \$90,000, this paragraph shall not apply if the defense tax provided in section 16 is applicable to such taxable year. For percentage increase in the amount of tax imposed by this subsection, see section 16.

"(2) Surtax net income over \$90,000: In the case of a taxable year beginning after August 31, 1951, to which the defense tax provided in section 16 is applicable, if the surtax net income for the taxable year of an individual who is the head of a household is over \$90,000, there shall be levied, collected, and paid for such taxable year upon the surtax net income of such indi-

vidual the surtax shown in the following table:

"If the surtax net income is:		The surtax shall be:	
Over \$90,000 but not over \$100,000.		\$49,840, plus 75 percent of excess over \$90,000.	
Over \$100,000 but not over \$120,000.		\$57,340, plus 76 percent of excess over \$100,000.	
Over \$120,000 but not over \$140,000.		\$72,540, plus 78 percent of excess over \$120,000.	
Over \$140,000 but not over \$160,000.		\$88,140, plus 80 percent of excess over \$140,000.	
Over \$160,000-----		\$104,140, plus 81 percent of excess over \$160,000."	

And in lieu thereof to insert the following:
"(c) Rates of surtax—Head of household:

"(1) Taxable years beginning after October 31, 1951, and before January 1, 1954: In the case of taxable years beginning after October 31, 1951, and before January 1, 1954, there shall be levied, collected, and paid for each taxable year upon the surtax net income of every individual who is the head of a household the surtax shown in the following table:

"If the surtax net income is:		The surtax shall be:	
Not over \$2,000-----		19.2 percent of the surtax net income.	
Over \$2,000 but not over \$4,000.		\$384, plus 20.8 percent of excess over \$2,000.	
Over \$4,000 but not over \$6,000.		\$800, plus 25 percent of excess over \$4,000.	
Over \$6,000 but not over \$8,000.		\$1,300, plus 28 percent of excess over \$6,000.	
Over \$8,000 but not over \$10,000.		\$1,860, plus 33 percent of excess over \$8,000.	
Over \$10,000 but not over \$12,000.		\$2,520, plus 35 percent of excess over \$10,000.	
Over \$12,000 but not over \$14,000.		\$3,220, plus 41 percent of excess over \$12,000.	
Over \$14,000 but not over \$16,000.		\$4,040, plus 45 percent of excess over \$14,000.	
Over \$16,000 but not over \$18,000.		\$4,940, plus 48 percent of excess over \$16,000.	
Over \$18,000 but not over \$20,000.		\$5,900, plus 51 percent of excess over \$18,000.	
Over \$20,000 but not over \$22,000.		\$6,920, plus 54 percent of excess over \$20,000.	
Over \$22,000 but not over \$24,000.		\$8,000, plus 56 percent of excess over \$22,000.	
Over \$24,000 but not over \$28,000.		\$9,120, plus 58 percent of excess over \$24,000.	
Over \$28,000 but not over \$32,000.		\$11,440, plus 60 percent of excess over \$28,000.	
Over \$32,000 but not over \$36,000.		\$13,840, plus 62 percent of excess over \$32,000.	
Over \$36,000 but not over \$40,000.		\$16,320, plus 64 percent of excess over \$36,000.	
Over \$40,000 but not over \$44,000.		\$18,880, plus 67 percent of excess over \$40,000.	

"If the surtax net income is:		The surtax shall be:	
Over \$44,000 but not over \$50,000.		\$21,560, plus 68 percent of excess over \$44,000.	
Over \$50,000 but not over \$60,000.		\$25,640, plus 71 percent of excess over \$50,000.	
Over \$60,000 but not over \$70,000.		\$32,740, plus 74 percent of excess over \$60,000.	
Over \$70,000 but not over \$80,000.		\$40,140, plus 76 percent of excess over \$70,000.	
Over \$80,000 but not over \$90,000.		\$47,740, plus 79 percent of excess over \$80,000.	
Over \$90,000 but not over \$100,000.		\$55,640, plus 81 percent of excess over \$90,000.	
Over \$100,000 but not over \$130,000.		\$63,740, plus 84 percent of excess over \$100,000.	
Over \$130,000 but not over \$160,000.		\$88,940, plus 85 percent of excess over \$130,000.	
Over \$160,000 but not over \$200,000.		\$114,440, plus 87 percent of excess over \$160,000.	
Over \$200,000 but not over \$250,000.		\$149,240, plus 88 percent of excess over \$200,000.	
Over \$250,000-----		\$193,240, plus 88.7 percent of excess over \$250,000.	

"(2) Taxable years beginning after December 31, 1953: In the case of taxable years beginning after December 31, 1953, there shall be levied, collected, and paid for each taxable year upon the surtax net income of every individual who is the head of a household the surtax shown in the following table:

"If the surtax net income is:		The surtax shall be:	
Not over \$2,000-----		17 percent of the surtax net income.	
Over \$2,000 but not over \$4,000.		\$340, plus 18.5 percent of excess over \$2,000.	
Over \$4,000 but not over \$6,000.		\$710, plus 22 percent of excess over \$4,000.	
Over \$6,000 but not over \$8,000.		\$1,150, plus 25 percent of excess over \$6,000.	
Over \$8,000 but not over \$10,000.		\$1,600, plus 29 percent of excess over \$8,000.	
Over \$10,000 but not over \$12,000.		\$2,230, plus 32 percent of excess over \$10,000.	
Over \$12,000 but not over \$14,000.		\$2,870, plus 37 percent of excess over \$12,000.	
Over \$14,000 but not over \$16,000.		\$3,610, plus 40 percent of excess over \$14,000.	
Over \$16,000 but not over \$18,000.		\$4,410, plus 43 percent of excess over \$16,000.	
Over \$18,000 but not over \$20,000.		\$5,270, plus 45 percent of excess over \$18,000.	
Over \$20,000 but not over \$22,000.		\$6,170, plus 48 percent of excess over \$20,000.	
Over \$22,000 but not over \$24,000.		\$7,130, plus 51 percent of excess over \$22,000.	
Over \$24,000 but not over \$26,000.		\$8,150, plus 52 percent of excess over \$24,000.	

"If the surtax net income is:	The surtax shall be:
Over \$26,000 but not over \$28,000.	\$9,190, plus 54 percent of excess over \$26,000.
Over \$28,000 but not over \$32,000.	\$10,270, plus 55 percent of excess over \$28,000.
Over \$32,000 but not over \$38,000.	\$12,470, plus 59 percent of excess over \$32,000.
Over \$38,000 but not over \$44,000.	\$16,010, plus 62 percent of excess over \$38,000.
Over \$44,000 but not over \$50,000.	\$19,730, plus 66 percent of excess over \$44,000.
Over \$50,000 but not over \$60,000.	\$23,690, plus 69 percent of excess over \$50,000.
Over \$60,000 but not over \$70,000.	\$30,590, plus 71 percent of excess over \$60,000.
Over \$70,000 but not over \$80,000.	\$37,690, plus 74 percent of excess over \$70,000.
Over \$80,000 but not over \$90,000.	\$45,090, plus 78 percent of excess over \$80,000.
Over \$90,000 but not over \$100,000.	\$52,890, plus 80 percent of excess over \$90,000.
Over \$100,000 but not over \$110,000.	\$60,890, plus 82 percent of excess over \$100,000.
Over \$110,000 but not over \$130,000.	\$69,090, plus 83 percent of excess over \$110,000.
Over \$130,000 but not over \$150,000.	\$85,690, plus 84 percent of excess over \$130,000.
Over \$150,000 but not over \$170,000.	\$102,490, plus 85 percent of excess over \$150,000.
Over \$170,000 but not over \$200,000.	\$119,490, plus 86 percent of excess over \$170,000.
Over \$200,000 but not over \$250,000.	\$145,290, plus 87 percent of excess over \$200,000.
Over \$250,000 -----	\$188,790, plus 88 percent of excess over \$250,000."

The next amendment was, on page 119, line 8, after "(A)", to strike out "A son or daughter (including a stepson or stepdaughter) of the taxpayer, or a descendant of such son or daughter, but if such son, daughter," and insert "A son, stepson, daughter, or stepdaughter of the taxpayer, or a descendant of a son or daughter of the taxpayer, but if such son, stepson, daughter, stepdaughter."

The next amendment was, on page 121, after line 2, to strike out:

"(b) Effective date: The amendment made by subsection (a) shall be applicable only with respect to taxable years beginning after August 31, 1951."

The next amendment was, on page 121, after line 5, to insert:

"(b) Computation of tax by collector.—

"(1) Section 51 (f) (1) (relating to tax computed by collector in case of wage earners) is hereby amended by adding at the end thereof the following: 'In the case of a head of a household electing the benefits of this subsection, the tax shall be computed by the collector under supplement T without regard to the taxpayer's status as head of a household.'

"(2) Section 402 (relating to effect of election to pay the tax imposed by supplement T) is hereby amended by adding at the end thereof the following: 'In the case of a head of a household electing to have his tax computed by the collector pursuant to the provisions of section 51 (f), the tax imposed by section 400 shall be computed without regard to the status of the taxpayer as a head of a household.'"

The next amendment was, on page 121, after line 21, to insert:

"(c) Effective date: The amendments made by this section shall be applicable only with respect to taxable years beginning after October 31, 1951."

The next amendment was, at the top of page 122, to insert:

"SEC. 302. Payments to beneficiaries of deceased employees.

"(a) Amendment of section 22 (b) (1): Section 22 (b) (1) (relating to exclusion of life insurance proceeds from gross income) is hereby amended to read as follows:

"(1) Life insurance, etc.: Amounts received—

"(A) under a life insurance contract, paid by reason of the death of the insured; or

"(B) under a contract of an employer providing for the payment of such amounts to the beneficiaries of an employee, paid by reason of the death of the employee;

whether in a single sum or otherwise (but if such amounts are held by the insurer, or the employer, under an agreement to pay interest thereon, the interest payments shall be included in gross income). The aggregate of the amounts excluded under subparagraph (B) by all the beneficiaries of the employee under all such contracts of any one employer may not exceed \$5,000."

"(b) Effective date: The amendment made by this section shall be applicable with respect to taxable years beginning after December 31, 1950."

The next amendment was, at the top of page 123, to insert:

"SEC. 303. Joint and survivor annuities.

"(a) Amendment of section 22 (b) (2): Section 22 (b) (2) is amended by adding at the end thereof the following new subparagraph:

"(C) Joint and survivor annuities: For purposes of subparagraphs (A) and (B) of this paragraph, where amounts are received by a surviving annuitant under a joint and survivor's annuity contract and the basis of such survivor annuitant's interest is determined under section 113 (a) (5) the consideration paid for such survivor's annuity shall be considered to be an amount equal to such basis."

"(b) Amendment of section 113 (a) (5): Section 113 (a) (5) is amended by adding at the end thereof the following: 'For the purposes of this paragraph, the survivor's interest in a joint and survivor's annuity shall be considered to be property "acquired by bequest, devise, or inheritance" from the decedent if the death of the decedent was after December 31, 1950, and if the value of any part of such interest was required to be included in determining the value of the decedent's gross estate under section 811.'

"(c) Effective dates: The amendments made by this section shall be applicable to taxable years ending after December 31, 1950."

The next amendment was, on page 124, after line 3, to insert:

"SEC. 304. Income from discharge of indebtedness.

"(a) Amendment of section 22 (b) (9): Effective with respect to discharges of indebtedness occurring within taxable years ending after December 31, 1950, section 22 (b) (9) (relating to income from discharge of indebtedness) is hereby amended (1) by striking out 'if the taxpayer makes and files at the time of filing the return, in such manner as the Commissioner, with the approval of the Secretary, by regulations prescribes, its consent' and inserting in lieu thereof 'if the taxpayer, at such time and in such manner as the Secretary by regulations prescribes, makes and files its consent', and (2) by striking out the last sentence thereof.

"(b) Amendment of section 22 (b) (10): Section 22 (b) (10) (relating to income from discharge of indebtedness of a railroad corporation) is hereby amended by striking out 'December 31, 1951' and inserting in lieu thereof 'December 31, 1954'."

The next amendment was, on page 124, after line 21, to insert:

"SEC. 305. Compensation of certain members of the Armed Forces.

"(a) Amendment of section 22 (b) (13): Section 22 (b) (13) (relating to exclusion from gross income of compensation of certain members of the Armed Forces) is hereby amended by striking out subparagraphs (A) and (B) and inserting in lieu thereof the following:

"(A) Enlisted personnel: Compensation received for active service as a member below the grade of commissioned officer in the Armed Forces of the United States for any month during any part of which such member—

"(i) served in a combat zone after June 24, 1950, and prior to January 1, 1954, or

"(ii) was hospitalized as a result of wounds, disease, or injury incurred while serving in a combat zone prior to January 1, 1954; but this clause shall not apply for any month during any part of which there are no combatant activities in any combat zone as determined under subparagraph (C) (iii) of this paragraph.

"(B) Commissioned officers: So much of the compensation as does not exceed \$200 received for active service as a commissioned officer in the Armed Forces of the United States for any month during any part of which such officer—

"(i) served in a combat zone after June 24, 1950, and prior to January 1, 1954, or

"(ii) was hospitalized as a result of wounds, disease, or injury incurred while serving in a combat zone prior to January 1, 1954; but this clause shall not apply for any month during any part of which there are no combatant activities in any combat zone as determined under subparagraph (C) (iii) of this paragraph."

"(b) Definition of service in combat zone: Clause (iii) of section 22 (b) (13) (C) is hereby amended by striking out 'such zone; and' and inserting in lieu thereof 'such zone, except that June 25, 1950, shall be considered the date of the commencing of combatant activities in the combat zone designated in Executive Order 10195; and.'

"(c) Withholding on wages: Section 1621 (a) (1) (relating to definition of the term 'wages') is hereby amended to read as follows:

"(1) for active service as a member of the Armed Forces of the United States performed prior to January 1, 1954, in a month for which such member is entitled to the benefits of section 22 (b) (13), or."

"(d) Effective dates: The amendments made by subsections (a) and (b) shall be applicable to taxable years ending after June 24, 1950. The amendment made by subsection (c) shall be applicable with respect to wages paid after the tenth day following the date of the enactment of this act."

The next amendment was, on page 127, after line 2, to insert:

"SEC. 306. Involuntary liquidation and replacement of inventory.

"(a) Amendment of section 22 (d) (6) (F) (iii): Section 22 (d) (6) (F) (iii) (relating to replacement of inventory involuntarily liquidated) is hereby amended by striking out the last sentence and inserting in lieu thereof the following: 'If, for any taxable year ending after June 30, 1950, and prior to January 1, 1953, subparagraph (C) is applicable with respect to involuntary liquidations of goods of the same class subject to the provisions of both subparagraph (A) and this subparagraph, the involuntary

liquidations of such goods subject to the provisions of this subparagraph shall be considered for the purpose of subparagraph (C) as having occurred prior to the involuntary liquidations of such goods subject to the provisions of subparagraph (A). For the purpose of this clause, and with respect to the taxable years covered by this subparagraph, the reference in subparagraph (E) to section 734 (d) shall be taken as a reference to section 452 (d)."

"(b) Effective date: The amendment made by subsection (a) shall be applicable with respect to taxable years ending after June 30, 1950."

The next amendment was, at the top of page 128, to insert:

"SEC. 307. Medical expenses.

"(a) Amendment of section 23 (x): Section 23 (x) (relating to medical, dental, etc., expenses) is hereby amended to read as follows:

"(x) Medical, dental, etc., expenses: Expenses paid during the taxable year, not compensated for by insurance or otherwise, for medical care of the taxpayer, his spouse, or a dependent specified in section 25 (b) (3)—

"(1) If neither the taxpayer nor his spouse has attained the age of 65 before the close of the taxable year, to the extent that such expenses exceed 5 percent of the adjusted gross income; or

"(2) If either the taxpayer or his spouse has attained the age of 65 before the close of the taxable year, (A) the amount of such expenses for the care of the taxpayer and his spouse, and (B) the amount by which such expenses for the care of such dependents exceed 5 percent of the adjusted gross income. The deduction under this subsection shall not be in excess of \$1,250 multiplied by the number of exemptions allowed under section 25 (b) for the taxable year (exclusive of exemptions allowed under section 25 (b) (1) (B) or (C)), with a maximum deduction of \$2,500, except that the maximum deduction shall be \$5,000 in the case of a joint return of husband and wife under section 51 (b). The term 'medical care', as used in this subsection, shall include amounts paid for the diagnosis, cure, mitigation, treatment, or prevention of disease, or for the purpose of affecting any structure or function of the body (including amounts paid for accident or health insurance). The determination of whether an individual is married at any time during the taxable year shall be made in accordance with the provisions of section 51 (b) (5)."

"(b) Effective date: The amendment made by this section shall be applicable with respect to taxable years beginning after December 31, 1950."

The next amendment was, on page 129, after line 11, to insert:

"SEC. 308. Standard deduction.

"(a) Method of election: Subparagraphs (A) and (B) of section 23 (aa) (3) (relating to optional standard deduction for individuals) are hereby amended by striking out the word 'only'; and subparagraph (C) of section 23 (aa) (3) is hereby amended to read as follows:

"(C) If the taxpayer upon making his return fails to signify, in the manner provided by subparagraph (A) or (B), his election to take the standard deduction, such failure shall be considered his election not to take the standard deduction."

"(b) Change of election: Section 23 (aa) is hereby amended by adding at the end thereof the following new paragraph:

"(7) Change of election: Under regulations prescribed by the Secretary, a change of an election to take, or not to take, the standard deduction for any taxable year may be made after the filing of the return for such year. If the spouse of the taxpayer filed a separate return for any taxable year

corresponding, for the purposes of paragraph (4), to the taxable year of the taxpayer, the change shall not be allowed unless, in accordance with such regulations—

"(A) the spouse makes a change of election with respect to the standard deduction for the taxable year covered in such separate return, consistent with the change of election sought by the taxpayer, and

"(B) the taxpayer and his spouse consent in writing to the assessment, within such period as may be agreed upon with the Secretary, of any deficiency, to the extent attributable to such change of election, even though at the time of the filing of such consent the assessment of such deficiency would otherwise be prevented by the operation of any law or rule of law.

This paragraph shall not apply if the tax liability of the taxpayer's spouse, for the taxable year corresponding (for the purposes of paragraph (4)) to the taxable year of the taxpayer, has been compromised under the provisions of section 3761."

"(c) Effective date: The amendments made by this section shall be applicable only with respect to taxable years beginning after December 31, 1949."

The next amendment was, on page 131, line 8, to change the section number from "302" to "309"; after line 9, to strike out:

"(a) Deduction of expenditures: Section 23 (a) (1) (relating to deductions from gross income) is hereby amended by adding at the end thereof the following new subparagraph:

"(D) Development of mines: Expenditures paid or incurred after December 31, 1950, in the development of a mine or other natural deposit (other than an oil or gas well), to the extent paid or incurred after the existence of ores or minerals in commercially marketable quantities has been disclosed, shall be deductible, on a ratable basis, as the units of produced ores or minerals benefited by such expenditures are sold. Such expenditures, and the adjustments to basis provided in section 113 (b) (1) (J), shall not be taken into account in determining the adjusted basis of the property for the purpose of computing depletion under section 114. This subparagraph shall not apply to expenditures for the acquisition or improvement of property of a character which is subject to the allowance for depreciation provided in section 23 (1). For purposes of this subparagraph, allowances for depreciation shall be considered as expenditures."

And in lieu thereof to insert the following:

"(a) Deduction of expenditures: Section 23 (relating to deductions from gross income) is hereby amended by adding at the end thereof the following new subsection:

"(cc) Development of mines.—

"(1) In general: Except as provided in paragraph (2), all expenditures paid or incurred during the taxable year for the development of a mine or other natural deposit (other than an oil or gas well) if paid or incurred after December 31, 1950, and after the existence of ores or minerals in commercially marketable quantities has been disclosed. This subsection shall not apply to expenditures for the acquisition or improvement of property of a character which is subject to the allowance for depreciation provided in section 23 (1), but allowances for depreciation shall be considered, for the purposes of this subsection, as expenditures."

"(2) Election of taxpayer: At the election of the taxpayer, made in accordance with regulations prescribed by the Secretary, expenditures described in paragraph (1) paid or incurred during the taxable year shall be treated as deferred expenses and shall be deductible on a ratable basis as the units of produced ores or minerals benefited by such expenditures are sold. In the case of such expenditures paid or incurred during the development stage of the mine or deposit, the election shall apply only with respect to the

excess of such expenditures during the taxable year over the net receipts during the taxable year from the ores or minerals produced from such mine or deposit. The election under this paragraph, if made, must be for the total amount of such expenditures, or the total amount of such excess, as the case may be, with respect to the mine or deposit, and shall be binding for such taxable year.

"(3) Adjusted basis of mine or deposit: The amount of expenditures which are treated under paragraph (2) as deferred expenses shall be taken into account in computing the adjusted basis of the mine or deposit, except that such amount, and the adjustments to basis provided in section 113 (b) (1) (J), shall be disregarded in determining the adjusted basis of the property for the purpose of computing a deduction for depletion under section 114."

The next amendment was, on page 134, line 5, after the word "deductions", to strike out "under section 23 (a) (1) (D)" and insert "as deferred expenses under section 23 (cc) (2)", and in line 17, after "section 23", to strike out "(a) (1) (D)" and insert "(cc)."

The next amendment was, on page 134, after line 20, to insert a new section, as follows:

"SEC. 310. Gross income of dependent of taxpayer.

"(a) Increase in amount of gross income permitted: Section 25 (b) (1) (D) (relating to exemptions for dependents of taxpayer) is hereby amended by striking out '\$500' and inserting in lieu thereof '\$600.'

"(b) Effective date: The amendment made by subsection (a) shall be applicable only with respect to taxable years beginning after December 31, 1950."

The next amendment was, on page 135, after line 3, to insert a new section, as follows:

"SEC. 311. Credit for dividends received.

"(a) Dividends from foreign corporation engaged in trade or business in the United States: Section 26 (b) (relating to dividends received credit) is hereby amended by inserting after paragraph (2) the following new paragraph:

"(3) Dividends received from certain foreign corporations: In the case of dividends received from a foreign corporation (other than a foreign personal holding company) which is subject to taxation under this chapter, if, for an uninterrupted period of not less than 36 months ending with the close of such foreign corporation's taxable year preceding the declaration of such dividends (or if the corporation has not been in existence for 36 months at the close of the taxable year preceding the declaration of such dividends, for the period the foreign corporation has been in existence)—

"(A) such foreign corporation has been engaged in trade or business within the United States; and

"(B) 50 percent or more of the gross income of such foreign corporation has been derived from sources within the United States,

85 percent of the amount received as dividends from earnings or profits accumulated during such uninterrupted period but not in excess of an amount which bears the same ratio to 85 percent of the amount received as dividends from earnings or profits accumulated during such uninterrupted period as the normal-tax net income of such foreign corporation for such uninterrupted period from sources within the United States bears to its entire normal-tax net income for such uninterrupted period."

"(b) Technical amendment. Section 119 (a) (2) (B) (relating to rules as to source of income in the case of dividends) is hereby amended by inserting before the semicolon at the end thereof the following: 'to the

extent exceeding the amount which is 100/85ths of the amount of the credit allowable under section 26 (b) in respect of such dividends."

"(c) Effective date: The amendments made by this section shall be applicable only with respect to taxable years beginning after December 31, 1950."

The next amendment was, on page 136, after line 21, to insert a new section, as follows:

"Sec. 312. Joint return after filing separate return.

"(a) Change of election: Section 51 of the Internal Revenue Code (relating to making of individual returns) is hereby amended by adding at the end thereof the following new subsection:

"(g) Joint return after filing separate return:

"(1) In general: If an individual has filed a separate return for a taxable year for which a joint return could have been made by him and his spouse under subsection (b) of this section, and the time prescribed by law for filing the return for such taxable year has expired, such individual and his spouse may nevertheless make a joint return for such taxable year. A joint return filed by the husband and wife in such a case shall constitute the return of the husband and wife for such taxable year, and all payments, credits, refunds, or other repayments made or allowed with respect to the separate return of either spouse for such taxable year shall be taken into account in determining the extent to which the tax based upon the joint return has been paid.

"(2) Payments required before joint return can be made: A joint return can be made under paragraph (1) only if there is paid in full at or before the time of the filing of the joint return—

"(A) all amounts previously assessed with respect to either spouse for such taxable year;

"(B) all amounts shown as the tax by either spouse upon his separate return for such taxable year; and

"(C) any amount determined, at the time of the filing of the joint return, as a deficiency with respect to either spouse for such taxable year if, prior to such filing, a notice under section 272 (a) of such deficiency has been mailed.

"(3) Time for making joint return: A joint return cannot be made under paragraph (1)—

"(A) after the expiration of 3 years from the last date prescribed by law for filing the return for such taxable year (determined without regard to any extension of time granted to either spouse);

"(B) after there has been mailed to either spouse, with respect to such taxable year, a notice of deficiency under section 272 (a), if the spouse, as to such notice, files a petition with the Tax Court of the United States within the time prescribed in such section;

"(C) after either spouse has commenced a suit in any court for the recovery of any part of the tax for such taxable year; or

"(D) after either spouse has entered into a closing agreement under section 3760 with respect to such taxable year, or after any civil or criminal case arising against either spouse with respect to such taxable year has been compromised under section 3761.

"(4) Elections made in separate return: If a joint return is made under this subsection, any election (other than the election to file a separate return) made by either spouse in his separate return for such taxable year with respect to the treatment of any income, deduction, or credit of such spouse shall not be changed in the making of the joint return where such election would have been irrevocable if the joint return had not been made.

"(5) Death of spouse: If a joint return is made under this subsection after the

death of either spouse, such return with respect to the decedent can be made only by his executor or administrator.

"(6) Additions to the tax: Where the amount shown as the tax by the husband and wife on a joint return made under this subsection exceeds the aggregate of the amounts shown as the tax upon the separate return of each spouse—

"(A) Negligence: If any part of such excess is attributable to negligence or intentional disregard of rules and regulations (but without intent to defraud) at the time of the making of such separate return, then 5 per cent of the total amount of such excess shall be assessed, collected, and paid in the same manner as if it were a deficiency;

"(B) Fraud: If any part of such excess is attributable to fraud with intent to evade tax at the time of the making of such separate return, then 50 percent of the total amount of such excess shall be so assessed, collected, and paid, in lieu of the 50 percent addition to the tax provided in section 3612 (d) (2).

"(7) Rules for application of sections 275 and 291: For the purposes of section 275 (relating to period of limitations upon assessment and collection), and for the purposes of section 291 (relating to delinquent returns, a joint return made under this subsection shall be deemed to have been filed—

"(A) where both spouses filed separate returns prior to making the joint return—on the date the last separate return was filed (but not earlier than the last date prescribed by law for filing the return of either spouse);

"(B) where only one spouse filed a separate return prior to the making of the joint return, and the other spouse had less than \$600 of gross income for such taxable year—on the date of the filing of such separate return (but not earlier than the last date prescribed by law for the filing of such separate return); or

"(C) where only one spouse filed a separate return prior to the making of the joint return, and the other spouse had gross income of \$600 or more for such taxable year—on the date of the filing of such joint return.

"(8) Rule for application of section 322: For the purposes of section 322 (relating to refunds and credits), a joint return made under this subsection shall be deemed to have been filed on the last date prescribed by law for filing the return for such taxable year (determined without regard to any extension of time granted to either spouse).

"(9) Additional time for assessment: If a joint return is made under this subsection, the period of limitations provided in sections 275 and 276 on the making of assessments and the beginning of distraint or a proceeding in court for collection shall with respect to such return include one year immediately after the date of the filing of such joint return (computed without regard to the provisions of paragraph (7) of this subsection).

"(10) Rule for application of section 3809 (a): For the purposes of section 3809 (a) (relating to criminal penalties in the case of fraudulent returns) the term "return" includes a separate return filed by a spouse with respect to a taxable year for which a joint return is made under this subsection after the filing of such separate return."

"(b) Effective date: The amendment made by subsection (a) shall be applicable only with respect to taxable years beginning after December 31, 1950."

The next amendment was, on page 142, after line 10, to insert a new section, as follows:

"Sec. 313. Mutual savings banks, building and loan associations, cooperative banks.

"(a) Mutual savings banks: Section 101 (2) (relating to exemption from tax of mutual savings banks) is hereby repealed.

"(b) Building and loan associations and cooperative banks: Section 101 (4) (relating to exemption from tax of building and loan associations and cooperative banks) is hereby amended to read as follows:

"(4) Credit unions without capital stock organized and operated for mutual purposes and without profit."

"(c) Federal savings and loan associations: Section 5 (h) of the Home Owners' Loan Act of 1933, as amended (12 U. S. C. 1464 (h)), is hereby amended by striking out 'date' and inserting in lieu thereof the following: 'date, and except, in the case of taxable years beginning after December 31, 1951, income, war-profits, and excess-profits taxes).'

"(d) Bad debt reserves: Section 23 (k) (1) (relating to deduction from gross income of bad debts) is hereby amended by adding at the end thereof the following: 'In the case of a mutual savings bank not having capital stock represented by shares, a domestic building and loan association, and a cooperative bank without capital stock organized and operated for mutual purposes and without profit, the reasonable addition to a reserve for bad debts shall be determined with due regard to the amount of the taxpayer's surplus or bad debt reserves existing at the close of December 31, 1951.'

"(e) Dividends paid to depositors: Section 23 (r) (relating to the deduction from gross income of certain dividends paid by banking corporations) is hereby amended to read as follows:

"(r) Dividends paid by banking corporations:

"(1) In the case of mutual savings banks, cooperative banks, and domestic building and loan associations, amounts paid to depositors or credited to the accounts of depositors as dividends on their deposits or withdrawable accounts.

"(2) For deduction of dividends paid by certain other banking corporations, see section 121."

"(f) Deduction for repayment to the United States of certain loans: Section 23 (relating to deductions from gross income) is hereby amended by adding at the end thereof the following:

"(dd) Repayment by mutual savings banks of certain loans: In the case of a mutual savings bank not having capital stock represented by shares, amounts paid by the taxpayer during the taxable year in repayment of loans made prior to September 1, 1951, by the United States or any agency or instrumentality thereof which is wholly owned by the United States."

"(g) Definition of bank: Section 104 (a) (relating to definition of bank) is hereby amended by inserting at the end thereof the following: 'Such term also means a domestic building and loan association.'

"(h) Definition of domestic building and loan association: Section 3797 (a) (relating to definitions for the purposes of the Internal Revenue Code) is hereby amended by adding at the end thereof the following new paragraph:

"(19) Domestic building and loan association: The term "domestic building and loan association" means a domestic building and loan association, a domestic savings and loan association, and a Federal savings and loan association, substantially all the business of which is confined to making loans to members."

"(i) Effective date: The amendments made by this section shall be applicable only with respect to taxable years beginning after December 31, 1951."

The next amendment was, on page 145, after line 6, to insert a new section, as follows:

"Sec. 314. Income tax treatment of exempt cooperatives.

"(a) Amendment of section 101 (12): Section 101 (12) is hereby amended as follows:

"(1) By inserting after '(12)' the following: '(A).'

"(2) By inserting after such paragraph the following:

"(B) An organization exempt from taxation under the provisions of subparagraph (A) shall be subject to the taxes imposed by sections 13 and 15, or section 117 (c) (1), except that in computing the net income of such an organization there shall be allowed as deductions from gross income (in addition to other deductions allowable under section 23)—

"(i) amounts paid as dividends during the taxable year upon its capital stock, and

"(ii) amounts allocated during the taxable year to patrons with respect to its income not derived from patronage (whether or not such income was derived during such taxable year) whether paid in cash, merchandise, capital stock, revolving fund certificates, retain certificates, certificates of indebtedness, letters of advice, or in some other manner that discloses to each patron the dollar amount allocated to him.

Patronage dividends, refunds, and rebates to patrons with respect to their patronage (whether paid in cash, merchandise, capital stock, revolving fund certificates, retain certificates, certificates of indebtedness, letters of advice, or in some other manner that discloses to each patron the dollar amount of such dividend, refund, or rebate) shall be taken into account in computing net income in the same manner as in the case of a cooperative organization not exempt under subparagraph (A). Such dividends, refunds, and rebates made after the close of the taxable year and on or before the fifteenth day of the third month following the close of such year shall be considered as made on the last day of such taxable year to the extent the dividends, refunds, or rebates, are attributable to patronage occurring before the close of such year."

"(b) Technical amendments:

"(1) Section 101 is hereby amended by striking out 'Except as provided in supplement U' and inserting in lieu thereof the following: 'Except as provided in paragraph (12) (B) and in supplement U.'

"(2) The last sentence of section 101 is hereby amended by striking out 'Notwithstanding supplement U' and inserting in lieu thereof 'Notwithstanding paragraph (12) (B) and supplement U.'

"(c) Information returns: Section 148 (relating to information by corporations) is hereby amended by adding at the end thereof the following:

"(f) Patronage dividends: Any corporation allocating amounts as patronage dividends, rebates, or refunds (whether in cash, merchandise, capital stock, revolving fund certificates, retain certificates, certificates of indebtedness, letters of advice, or in some other manner that discloses to each patron the amount of such dividend, refund, or rebate) shall render a correct return stating (1) the name and address of each patron to whom it has made such allocations amounting to \$100 or more during the calendar year, and (2) the amount of such allocations to each patron. If required by the Secretary, any such corporation shall render a correct return of all patronage dividends, rebates, or refunds made during the calendar year to its patrons."

"(d) Withholding of tax at source: If any law (other than sections 143 and 144 of the Internal Revenue Code) enacted by Congress requires the withholding at source of tax on corporate dividends paid in cash, patronage dividends, rebates, and refunds (whether paid in cash, merchandise, capital stock, revolving fund certificates, retain certificates, or otherwise) shall be subject to the provisions of such law in the same manner and to the same extent as provided in such law with respect to corporate dividends paid in cash.

"(e) Effective date: The amendments made by subsections (a) and (b) of this section shall be applicable only with respect to taxable years beginning after December 31, 1951. The amendment made by subsection (c) shall be applicable to the calendar year 1951 and subsequent calendar years."

The next amendment was, on page 148, after line 13, to insert a new section, as follows:

"SEC. 315. Surtax on corporations improperly accumulating surplus.

"(a) Long-term capital gains: Section 102 (d) (1) (relating to definition of section 102 net income) is hereby amended by adding at the end thereof the following new subparagraph:

"(D) Long-term capital gains: The excess of the net long-term capital gain for the taxable year over the net short-term capital loss for such year, minus the taxes imposed by this chapter attributable to such excess. The taxes attributable to such excess shall be an amount equal to the difference between (i) the taxes imposed by this chapter (except the tax imposed by this section) for such year and (ii) such taxes computed for such year without including such excess in net income."

"(b) Effective date: The amendment made by subsection (a) shall be applicable only with respect to taxable years beginning after December 31, 1950."

The next amendment was, on page 149, after line 7, to insert a new section, as follows:

"SEC. 316. Election as to recognition of gain in certain corporate liquidations.

"(a) Amendment of section 112 (b) (7): Section 112 (b) (7) (relating to recognition of gain in certain corporate liquidations) is hereby amended by striking out in subparagraph (A) (ii) '1951' and by inserting in lieu thereof '1951 or 1952.'

"(b) Basis of property: Section 113 (a) (18) (relating to basis of property received in certain corporate liquidations) is amended by striking out the Revenue Act of 1950 and by inserting in lieu thereof 'any revenue act.'

"(c) Effective date: The amendments made by this section shall be applicable only to taxable years ending after December 31, 1951."

The next amendment was, on page 149, after line 21, to insert a new section, as follows:

"SEC. 317. Certain distributors of stock on reorganization.

"(a) Distribution not in liquidation: Section 112 (b) (relating to nonrecognition of gain or loss in the case of certain exchanges) is hereby amended by adding at the end thereof the following new paragraph:

"(11) Distribution of stock not in liquidation: If there is distributed, in pursuance of a plan of reorganization, to a shareholder of a corporation which is a party to the reorganization, stock (other than preferred stock) in another corporation which is a party to the reorganization, without the surrender by such shareholder of stock, no gain to the distributee from the receipt of such stock shall be recognized unless it appears that (A) any corporation which is a party to such reorganization was not intended to continue the active conduct of a trade or business after such reorganization, or (B) the corporation whose stock is distributed was used principally as a device for the distribution of earnings and profits to the shareholders of any corporation a party to the reorganization."

"(b) Basis of stock: Section 113 (a) (relating to unadjusted basis for determining gain or loss) is hereby amended by adding

at the end thereof the following new paragraph:

"(23) Tax-free distributions: If the property consists of stock distributed after the date of the enactment of the Revenue Act of 1951 to a taxpayer in connection with a transaction described in section 112 (b) (11) (hereinafter in this paragraph called new stock), or consists of stock in respect of which such distribution was made (hereinafter in this paragraph called old stock), then the basis of the new stock and of the old stock, respectively, shall, in the shareholder's hands, be determined by allocating between the old stock and the new stock the adjusted basis of the old stock; such allocation to be made under regulations prescribed by the Secretary."

"(c) Effective date: The amendments made by this section shall be applicable with respect to taxable years ending after the date of the enactment of this act, but shall apply only with respect to distributions of stock made after such date."

The next amendment was, on page 151, line 14, to change the section number from "303" to "318", and on page 154, after line 11, to insert:

"(G) In the case of a new residence the construction of which was commenced by the taxpayer prior to the expiration of 1 year after the date of the sale of the old residence, the period specified in paragraph (1), and the 1 year referred to in subparagraph (F) of this paragraph, shall be considered as including a period of 18 months beginning with the date of the sale of the old residence."

The next amendment was, on page 160, line 14, to change the section number from "304" to "319", and after line 24, to strike out:

"(i) In the case of asbestos, sand, gravel, stone (including pumice, scoria, and slate), brick and tile clay, shale, oyster shell, clam shell, granite and marble, 5 percent.

"(ii) in the case of coal, 10 percent,

"(iii) in the case of metal mines, bauxite, fluorspar, flake graphite, vermiculite, beryl, feldspar, mica, talc (including pyrophyllite), lepidolite, spodumene, barite, ball and sagger clay, china clay, phosphate rock, rock asphalt, trona, bentonite, gilsonite, thenardite (including thenardite from brines or mixtures of brine), potash, borax, fuller's earth, tripoli, refractory and fire clay, quartzite, perlite, diatomaceous earth, metallurgical grade limestone, and chemical grade limestone, 15 percent, and."

And in lieu thereof to insert the following:

"(i) in the case of sand, gravel, slate, stone (including pumice and scoria), brick and tile clay, shale, oyster shell, clam shell, granite, marble, sodium chloride and if from brine wells calcium chloride, magnesium chloride, potassium chloride, and bromine, 5 percent,

"(ii) in the case of coal, asbestos, brucite, dolomite, magnesite, wollastonite, borax, fuller's earth, tripoli, refractory and fire clay, quartzite, perlite, diatomaceous earth, metallurgical grade limestone, and chemical grade limestone, 10 percent,

"(iii) in the case of metal mines, apatite, bauxite, fluorspar, flake graphite, vermiculite, beryl, feldspar, mica, talc (including pyrophyllite), lepidolite, spodumene, barite, ball clay, sagger clay, china clay, phosphate rock, rock asphalt, trona, bentonite, gilsonite, thenardite, and potash, 15 percent, and."

The next amendment was, on page 163, after line 2, to insert a new section, as follows:

"SEC. 320. Redemption of stock to pay death taxes.

"(a) Amendment of section 115 (g) (3): Section 115 (g) (3) (relating to redemption of stock to pay death taxes) is hereby

amended by striking out '50 percent' and inserting in lieu thereof '25 percent.'

"(b) Effective date: The amendment made by subsection (a) shall be applicable to taxable years ending on or after the date of the enactment of this act, but shall apply only to amounts distributed on or after such date."

The next amendment was, on page 163, after line 11, to insert a new section, as follows:

"Sec. 321. Earned income from sources without the United States.

"(a) Exclusion from gross income: Section 116 (a) (relating to earned income from sources without the United States) is hereby amended by striking out paragraphs (1) and (2) and inserting in lieu thereof the following:

"(1) Bona fide resident of foreign country: In the case of an individual citizen of the United States, who establishes to the satisfaction of the Secretary that he has been a bona fide resident of a foreign country or countries for an uninterrupted period which includes an entire taxable year, amounts received from sources without the United States (except amounts paid by the United States or any agency thereof) if such amounts constitute earned income (as defined in paragraph (3)) attributable to such period; but such individual shall not be allowed as a deduction from his gross income any deductions properly allocable to or chargeable against amounts excluded from gross income under this paragraph.

"(2) Presence in foreign country for 17 months: In the case of an individual citizen of the United States, who during any period of 18 consecutive months is present in a foreign country or countries during at least 510 full days in such period, amounts received from sources without the United States (except amounts paid by the United States or any agency thereof) if such amounts constitute earned income (as defined in paragraph (3)) attributable to such period; but such individual shall not be allowed as a deduction from his gross income any deductions properly allocable to or chargeable against amounts excluded from gross income under this paragraph."

"(b) Withholding of tax on wages: Section 1621 (a) (8) (A) (relating to definition of wages) is hereby amended to read as follows:

"(A) for services for an employer (other than the United States or any agency thereof) performed in a foreign country by a citizen of the United States, if at the time of the payment of such remuneration the employer is required by the law of any foreign country to withhold income tax upon such remuneration, or it is reasonable to believe that such remuneration will be excluded from gross income under the provisions of section 116 (a) (1) or (2), or."

"(c) Effective dates: The amendment made by subsection (a) shall be applicable to taxable years beginning after December 31, 1950. The amendment made by subsection (b) shall be applicable with respect to wages paid on or after January 1, 1952."

The next amendment was, on page 165, line 14, to change the section number from "305" to "322"; at the beginning of line 21, to strike out "(cc)" and insert "(ee)"; on page 167, line 9, after the word "loss", to strike out "In the case of taxable years to which the defense tax provided in section 16 (c) is applicable, such amount shall be increased by the percentage specified in such section."; in line 25, after "section 23", to strike out "(cc)" and insert "(ee)"; on page 169, line 3, after "section 23", to strike out "(cc)" and insert "(ee)"; and in line 13, after "section 23", to strike out "(cc)" and insert "(ee)."

The next amendment was, at the top of page 170, to insert a new section, as follows:

"Sec. 323. Sale of land with unharvested crop.

"(a) Treatment of gain or loss: Section 117 (j) (relating to sale or exchange of property used in the trade or business) is hereby amended—

"(1) By inserting immediately before the period at the end of the second sentence of paragraph (1) thereof the following: 'and unharvested crops to which paragraph (3) is applicable'; and

"(2) By adding at the end thereof a new paragraph to read as follows:

"(3) Sale of land with unharvested crop: In the case of an unharvested crop on land used in the trade or business and held for more than 6 months, if the crop and the land are sold or exchanged (or compulsorily or involuntarily converted as described in paragraph (2)) at the same time and to the same person, the crop shall be considered as 'property used in the trade or business'."

"(b) Treatment of deductions.—

"(1) Amendment of section 24: Section 24 (relating to items not deductible) is hereby amended by adding at the end thereof a new subsection to read as follows:

"(f) Sale of land with unharvested crop: Where an unharvested crop sold by the taxpayer is considered under the provisions of section 117 (j) (3) as 'property used in the trade or business,' in computing net income no deduction (whether or not for the taxable year of the sale and whether for expenses, depreciation, or otherwise) attributable to the production of such crop shall be allowed."

"(2) Amendment of section 113 (b) (1): Section 113 (b) (1) (relating to adjustments to basis) is hereby amended by adding at the end thereof a new subparagraph to read as follows:

"(L) for deductions to the extent disallowed under section 24 (f), notwithstanding the provisions of any other subparagraph of this paragraph."

"(c) Effective date. The amendment made by subsection (a) shall be applicable only with respect to sales, exchanges, and conversions, occurring in taxable years beginning after December 31, 1950. The amendments made by subsection (b) shall be applicable to any taxable year for which a deduction is disallowed by reason of sales, exchanges, or conversions to which subsection (a) is applicable."

The next amendment was, on page 171, after line 21, to strike out:

"Sec. 306. Sales of livestock.

"Effective with respect to taxable years beginning after December 31, 1950, section 117 (j) (1) is hereby amended by adding at the end thereof the following new sentence: 'Such term also includes livestock held by the taxpayer for draft, breeding, or dairy purposes for 12 months or more.'"

And in lieu thereof, to insert the following:

"Sec. 324. Sales of livestock.

"Section 117 (j) (1) is hereby amended by adding at the end thereof the following new sentence: 'Such term also includes livestock, regardless of age, held by the taxpayer for draft, breeding, or dairy purposes, and held by him for 12 months or more from the date of acquisition. Such term does not include poultry; except that such term includes turkeys, regardless of age, held by the taxpayer for breeding purposes, and held by him for 12 months or more from the date of acquisition.' The first sentence added to section 117 (j) (1) by the amendment made by this section shall be applicable with respect to taxable years beginning after December 31, 1941, except that the extension of the holding period from 6 to 12 months shall be applicable

only with respect to taxable years beginning after December 31, 1950. The second sentence added to section 117 (j) (1) by the amendment made by this section shall be applicable only with respect to taxable years beginning after December 31, 1950."

The next amendment was, on page 172, line 22, to change the section number from "307" to "325"; on page 173, line 7, after the word "coal", to strike out "held for more than 6 months prior to such disposal" and insert "(including lignite), held for more than 6 months prior to such disposal"; in line 17, after the word "coal", to strike out "In the case of coal, this paragraph shall not apply if such owner is personally obligated to pay a share of the cost of mining operations."; in line 21, after the amendment just above stated, to insert "This paragraph shall not apply to income realized by the owner as a co-adventurer, partner, or principal in the cutting of such timber or in the mining of such coal. The date of disposal of such timber or coal shall be deemed to be the date such timber is cut or such coal is mined. In determining the gross income, the adjusted gross income, or the net income of the lessee, the deductions allowable with respect to rents and royalties shall be determined without regard to the provisions of this paragraph."

The next amendment was, on page 174, after line 9, to insert:

"(d) Technical amendment: Section 481 (a) (4) is hereby amended by striking out 'cutting or disposal of timber' and inserting in lieu thereof 'cutting of timber, or the disposal of timber or coal,'"

"(e) Conforming amendments.—

"(1) Section 433 (relating to computation of excess profits net income) is hereby amended by inserting at the end thereof the following new subsection:

"(d) Gain or loss upon certain disposals of coal in base period: For the purpose of subsection (b), the excess profits net income shall be computed as if the provisions of section 117 (j) and (k) (2) which relate to disposals of coal were a part of the law applicable to the taxable year for which excess profits net income is computed."

"(2) Section 440 (a) (1) (relating to definition of 'inadmissible assets') is hereby amended by striking out 'and' at the end of subparagraph (A); by striking out the period at the end of subparagraph (B) and inserting in lieu thereof '; and'; and by adding at the end thereof the following new subparagraph:

"(C) The economic interest referred to in the provisions of section 117 (k) (2) relating to coal if the taxpayer is subject to such provisions with respect to the income from such coal."

"(3) The amendments made by this subsection shall be applicable in computing the tax under subchapter D of chapter 1 for taxable years ending after December 31, 1950."

The next amendment was, on page 175, at the beginning of line 14, to strike out "(d)" and insert "(f)"; in the same line, after the word "Date", to strike out "The" and insert "Except as provided in subsection (e), the"; and in line 17, after the word "the", to strike out "disposal of the coal occurred" and insert "contract was made."

The next amendment was, on page 175, line 21, to change the section number from "308" to "326"; and on page 178, after line 13, to strike out:

"(c) Effective date: The amendment made by this section shall be applicable to taxable years beginning after December 31, 1950. The determination of the tax treatment of gains realized in taxable years beginning prior to January 1, 1951, shall be made as if this section had not been enacted and with-

out inferences drawn from the fact that the amendment to section 117 (m) made by this section is not expressly made applicable to gains realized in taxable years beginning prior to such date and without inferences drawn from the limitations contained in section 117 (m), as amended by this section."

And in lieu thereof, to insert the following:

"(c) Effective date: The amendments made by this section shall be applicable to taxable years ending after August 31, 1951, but shall be applicable only with respect to gains realized after such date. The determination of the tax treatment of gains realized prior to September 1, 1951, shall be made as if this section had not been enacted and without inferences drawn from the fact that the amendments to section 117 (m) made by this section are not expressly made applicable to gains realized prior to September 1, 1951, and without inferences drawn from the limitations contained in section 117 (m), as amended by this section."

The next amendment was, on page 179, line 11, to change the section number from "309" to "327"; and on page 180, line 8, after the word "security", to strike out "shall" and insert "shall, except as otherwise provided in subsection (i) (relating to bond, etc., losses of banks)."

The next amendment was, at the top of page 181, to strike out:

"SEC. 310. Treatment of gain on sales of certain property between spouses and between an individual and a controlled corporation.

"(a) Disallowance of capital gain treatment: Section 117 (relating to capital gains and losses) is hereby amended by adding at the end thereof the following new subsection:

"(o) Gain from sale of certain property between spouses or between an individual and a controlled corporation:

"(1) Treatment of gain as ordinary income: In the case of a sale or exchange, directly or indirectly, of property described in paragraph (2)—

"(A) between a husband and wife; or

"(B) between an individual and a corporation more than 50 percent in value of the outstanding stock of which is owned directly or indirectly, by or for such individual,

any gain recognized to the transferor from the sale or exchange of such property shall be considered as gain from the sale or exchange of property which is neither a capital asset nor property described in subsection (j).

"(2) Subsection applicable only to sales or exchanges of depreciable property: This subsection shall apply only in the case of a sale or exchange of property by a transferor which in the hands of the transferee is property of a character which is subject to the allowance for depreciation provided in section 23 (1).

"(3) Stock ownership: For the purposes of determining, in applying paragraph (1) (B), the ownership of stock—

"(A) stock owned, directly or indirectly, by or for a corporation, partnership, estate, or trust, shall be considered as being owned proportionately by or for its shareholders, partners, or beneficiaries;

"(B) an individual shall be considered as owning the stock owned, directly or indirectly, by or for his spouse;

"(C) if an individual owns more than 10 percent in value of the outstanding stock of a corporation (including stock considered as owned by him under subparagraphs (A) and (B)), such individual shall be considered as owning the stock owned in such corporation, directly or indirectly, by or for his brothers and sisters (whether by

the whole or the half blood), ancestors, and lineal descendants;

"(D) stock constructively owned by a person by reason of the application of subparagraph (A) shall, for the purpose of applying subparagraph (A), (B), or (C), be treated as actually owned by such person, but stock constructively owned by an individual by reason of the application of subparagraph (B) or (C) shall not be treated as owned by him for the purpose of applying either such subparagraph in order to make another the constructive owner of such stock."

"(b) Effective date: The amendment made by subsection (a) shall be applicable with respect to taxable years ending after April 30, 1951, but shall apply only with respect to sales or exchanges made after May 3, 1951."

The next amendment was, on page 183, after line 14, to insert a new section, as follows:

"SEC. 328. Receipts of certain termination payments by employee.

"(a) Taxability to employee as capital gain: Section 117 of the Internal Revenue Code is hereby amended by adding at the end thereof the following subsection:

"(o) Taxability to employee of termination payment: Amounts received from the assignment or release by an employee, after more than 20 years' employment, of all his rights to receive, after termination of his employment, a percentage of future profits or receipts of his employer shall be considered an amount received from the sale or exchange of a capital asset held for more than 6 months, if such rights were included in the terms of the employment of such employee for not less than 12 years, and if the total of the amounts received for such assignment or release are received in one taxable year and after the termination of such employment."

"(b) Effective date: The amendment made by this section shall be applicable with respect to taxable years beginning after December 31, 1950."

The next amendment was, on page 184, after line 10, to insert a new section as follows:

"SEC. 329. Net operating loss carry-over.

"(a) Loss for taxable year beginning before 1948: So much of subparagraph (A) of section 122 (b) (2) (relating to the amount of carry-overs) as precedes 'the taxpayer' is hereby amended to read as follows:

"(A) Loss for taxable year beginning before 1948: Except as provided in subparagraph (D), if for any taxable year beginning before January 1, 1948,"

"(b) Allowance of 4-year loss carry-over from taxable years 1948 to 1949: Section 122 (b) (2) (relating to the amount of carry-over) is hereby amended by adding after subparagraph (B) the following new subparagraphs:

"(C) Loss for taxable year beginning after December 31, 1947, and before January 1, 1950: If for any taxable year beginning after December 31, 1947, and before January 1, 1950, the taxpayer has a net operating loss, such net operating loss shall be a net operating loss carry-over for each of the four succeeding taxable years, except that the carry-over in the case of each such succeeding taxable year shall be the excess, if any, of the amount of such net operating loss over the sum of the net income for each of the intervening years computed—

"(i) with the exceptions, additions, and limitations provided in subsection (d) (1), (2), (4), and (6), and

"(ii) by determining the net operating loss deduction for each intervening taxable year without regard to such net operating loss or to the net operating loss for any suc-

ceeding taxable year and without regard to any reduction specified in subsection (c).

For the purpose of the preceding sentence, the net operating loss for any taxable year beginning after December 31, 1947 and before January 1, 1950 shall be reduced by the sum of the net income for each of the two preceding taxable years computed—

"(iii) with the exceptions, additions, and limitations provided in subsection (d) (1), (2), (4), and (6), and

"(iv) by determining the net operating loss deduction without regard to such net operating loss or to the net operating loss for the succeeding taxable year, and without regard to any reduction specified in subsection (c).

"(D) Loss for taxable year beginning after December 31, 1945 and before January 1, 1948 in the case of a corporation which commenced business after December 31, 1945: If for any taxable year beginning after December 31, 1945, and before January 1, 1948, a corporation which commenced business after December 31, 1945, has a net operating loss, such net operating loss shall be a net operating loss carry-over for each of the four succeeding taxable years, except that the carry-over in the case of each such succeeding taxable year (other than the first succeeding taxable year) shall be the excess, if any, of the amount of such net operating loss over the sum of the net income for each of the intervening years computed—

"(i) with the exceptions, additions, and limitations provided in subsection (d) (1), (2), (4), and (6), and

"(ii) by determining the net operating loss deduction for each intervening taxable year without regard to such net operating loss or to the net operating loss for any succeeding taxable year and without regard to any reduction specified in subsection (c).

For the purpose of the preceding sentence, the net operating loss for any taxable year beginning after December 31, 1945, shall be reduced by the sum of the net income for each of the two preceding taxable years computed—

"(iii) with the exceptions, additions, and limitations provided in subsection (d) (1), (2), (4), and (6), and

"(iv) by determining the net operating loss deduction without regard to such net operating loss or to the net operating loss for the succeeding taxable year, and without regard to any reduction specified in subsection (c).

"(c) Effective date: The amendments made by this section shall be applicable in computing the net operating loss deduction for taxable years beginning after December 31, 1948."

The next amendment was, on page 188, after line 2, to insert a new section, as follows:

"SEC. 330. Stock options.

"(a) Option subject to stockholder approval: Section 130A (d) (relating to definition of restricted stock option) is hereby amended by striking out 'As used in' and inserting 'For the purposes of' and by adding at the end thereof the following:

"(5) Stockholder approval: If the grant of an option is subject to approval by stockholders, the date of grant of the option shall be determined as if the option had not been subject to such approval."

"(b) Effective date: The amendment made by subsection (a) shall be effective as if it had been enacted as part of section 218 of the Revenue Act of 1950."

The next amendment was, on page 188, after line 15, to insert a new section, as follows:

"SEC. 331. Credit for taxes of foreign corporations.

"(a) Foreign subsidiary of a domestic corporation: Effective with respect to dividends

received by a domestic corporation from a foreign corporation during taxable years beginning after December 31, 1950, the first sentence of section 131 (f) (1) is hereby amended by striking out 'a majority' and inserting in lieu thereof 'at least 10 percent.'

"(b) Foreign subsidiary of a foreign corporation: Effective with respect to dividends received by a foreign corporation from another foreign corporation in taxable years beginning after December 31, 1950, section 131 (f) (2) is hereby amended by striking out 'all the voting stock (except qualifying shares)' and inserting in lieu thereof 'a majority of the voting stock.'

"(c) Clerical amendment: So much of section 131 (f) (1) as precedes the first sentence thereof is hereby amended to read as follows:

"(f) Taxes of foreign corporation.—

"(1) Treatment of taxes paid by foreign corporation.—"

The next amendment was, on page 189, after line 11, to insert a new section as follows:

"Sec. 332. Information at source on payments of interest.

"Section 147 (a) is hereby amended by striking out 'interest,' in the first sentence. Section 147 (b) is hereby amended to read as follows:

"(b) Returns regardless of amount of payment: Such returns may be required, regardless of amounts, (1) in the case of payments of interest, and (2) in the case of collections of items (not payable in the United States) of interest upon the bonds of foreign countries and interest upon the bonds of and dividends from foreign corporations by persons undertaking as a matter of business or for profit the collection of foreign payments of such interest or dividends by means of coupons, checks, or bills of exchange."

The next amendment was, at the top of page 190, to insert a new section, as follows:

"Sec. 333. A statement of income tax for certain members of Armed Forces upon death.

"Supplement D of chapter 1 of the Internal Revenue Code (relating to returns and payment of tax) is hereby amended by adding at the end thereof the following new section:

"Sec. 154. Income taxes of members of Armed Forces upon death.

"In the case of any individual who dies after June 24, 1950, and prior to January 1, 1954, while in active service as a member of the Armed Forces of the United States, if such death occurred while serving in a combat zone (as determined under section 22 (b) (13) or as a result of wounds, disease, or injury incurred while so serving—

"(a) the tax imposed by this chapter shall not apply with respect to the taxable year in which falls the date of his death, or with respect to any prior taxable year ending on or after the first day he so served in a combat zone after June 24, 1950; and

"(b) the tax under this chapter and under the corresponding title of each prior revenue law for taxable years preceding those specified in clause (a) which is unpaid at the date of his death (including interest, additions to the tax, and additional amounts) shall not be assessed, and if assessed the assessment shall be abated, and if collected shall be credited or refunded as an overpayment."

The next amendment was, on page 191, after line 2, to insert a new section, as follows:

"Sec. 334. Employees' trusts.

"(a) Amendment of section 165 (b): Section 165 (b) (relating to taxability of beneficiary on distributions from an employees' trust) is hereby amended by adding at the end thereof the following new sentence: 'Where such total distributions include se-

curities of the employer corporation, there shall be excluded from such excess the net unrealized appreciation attributable to that part of the total distributions which consists of the securities of the employer corporation so distributed. The amount of such net unrealized appreciation and the resulting adjustments to basis of the securities of the employer corporation so distributed shall be determined in accordance with regulations which shall be prescribed by the Secretary. For purposes of this subsection, the term "securities" means only shares of stock and bonds or debentures issued by a corporation with interest coupons or in registered form."

"(b) Effective date: The amendment made by this section shall be applicable with respect to distributions made after December 31, 1950."

The next amendment was, on page 191, after line 22, to strike out:

"Sec. 311. Life insurance companies.

"(a) Reserve and other policy liability credit for 1951: So much of section 202 (b) (2) (relating to definition of reserve and other policy liability credit) as precedes subparagraph (A) thereof is hereby amended to read as follows:

"(2) Special rule for 1949, 1950, and 1951: In the case of the taxes imposed for a taxable year beginning in 1949, 1950, or 1951, the figure to be used for such year shall be computed as provided in paragraph (1) except that—"

"(b) Effective date: The amendment made by subsection (a) shall be applicable to taxable years beginning in 1951."

And in lieu thereof, to insert the following:

"Sec. 335. Life insurance companies.

"(a) Tax for 1951: Section 201 (a) (1) (relating to imposition of tax on life insurance companies) is hereby amended by adding at the end thereof the following: 'In lieu of the taxes imposed by the preceding sentence, there shall be levied, collected, and paid for taxable years beginning in 1951 upon the 1951 adjusted normal-tax net income (as defined in section 203A) of every life insurance company a tax equal to the sum of the following:

"8¼ percent of the amount thereof not in excess of \$200,000, plus

"6½ percent of the amount thereof in excess of \$200,000."

"(b) Adjusted normal-tax net income for 1951: Chapter 1 is hereby amended by inserting after section 203 the following new section:

"Sec. 203A. 1951 adjusted normal-tax net income.

"(a) 1951 adjusted normal-tax net income: For the purposes of section 201, the term "1951 adjusted normal-tax net income" means the normal-tax net income plus eight times the amount of the adjustment for certain reserves provided in section 202 (c) and minus the reserve interest credit, if any, provided in subsection (b) of this section.

"(b) Reserve interest credit: For the purposes of subsection (a), the reserve interest credit shall be an amount determined as follows:

"(1) Divide the amount of the adjusted net income (as defined in subsection (c)) by the amount of the required interest (as defined in subsection (d)).

"(2) If the quotient obtained in paragraph (1) is 1.05 or more, the reserve interest credit shall be zero.

"(3) If the quotient obtained in paragraph (1) is 1.00 or less, the reserve interest credit shall be an amount equal to 50 percent of the normal-tax net income.

"(4) If the quotient obtained in paragraph (1) is more than 1.00 but less than 1.05, the reserve interest credit shall be the

amount obtained by multiplying the normal-tax net income by 10 times the difference between the figure 1.05 and such quotient.

"(c) Adjusted net income: For the purposes of subsection (b) (1), the term "adjusted net income" means the net income computed without any deduction for tax-free interest minus 50 percent of the amount of the adjustment for certain reserves provided in section 202 (c).

"(d) Required interest: For the purposes of subsection (b) (1), the term "required interest" means the total of—

"(1) The sum of the amounts obtained by multiplying (A) each rate of interest assumed in computing the taxpayer's life insurance reserves by (B) the means of the amounts of the taxpayer's adjusted reserves computed at that rate at the beginning and end of the taxable year,

"(2) 2 percent of the reserve for deferred dividends, and

"(3) Interest paid."

"(c) Technical amendments:

"(1) Section 433 (a) (1) (H) (relating to excess profits net income of life insurance companies) is hereby amended by changing the semicolon at the end thereof to a period and by inserting thereafter the following: 'In the case of taxable years beginning in 1951, there shall be used, in lieu of the figure referred to in clause (i) of the first sentence of this subparagraph, the figure .87;'

"(2) Section 201 (f) (relating to disallowance of double deductions) is hereby amended by striking out 'or 203' and inserting in lieu thereof '203, or 203A'.

"(d) Effective date: The amendments made by this section shall be applicable to taxable years beginning in 1951."

The next amendment was, on page 195, line 9, to change the section number from "312" to "336," and after line 15, to strike out:

"(c) Certain investment companies: If the Securities and Exchange Commission determines in accordance with regulations issued by it, and certifies to the Secretary not more than 60 days prior to the close of the taxable year of a registered management company, that such investment company is principally engaged in the furnishing of capital to other corporations which are principally engaged in the development or exploitation of inventions, technological developments, new processes, or products not previously generally available, such investment company may, in the computation of 50 percent of the value of its assets under subparagraph (A) of subsection (b) (3) for any quarter of such taxable year, include with respect to any issuer securities which constitute more than (10) percent of the outstanding voting securities of such issuer if the investment company has not continuously held any security of such issuer (or of any predecessor company of such issuer as determined under regulations prescribed by the Secretary) for 10 or more years preceding such quarter of such taxable year. The provisions of this subsection shall not apply at the close of any quarter of a taxable year to an investment company if at the close of such quarter more than 25 percent of the value of its total assets is represented by securities of issuers with respect to each of which the investment company holds more than 10 percent of the outstanding voting securities of such issuer and in respect of each of which or any predecessor thereof the investment company has continuously held any security for 10 or more years preceding such quarter unless the value of its total assets so represented is reduced to 25 percent or less within 30 days after the close of such quarter. The terms used in this subsection shall have the same meaning as in subsection (b) (3) of this section. For the purposes of this subsection, a corporation shall be considered to be principally engaged in the development or exploitation of inven-

tions, technological improvements, new processes, or products not previously generally available, for at least 10 years after the date of the first acquisition of any security in such corporation or any predecessor thereof by such investment company if at the date of such acquisition the corporation or its predecessor was principally so engaged. For the purposes of the certification hereunder, the Securities and Exchange Commission shall have authority to issue such rules, regulations, and orders, and to conduct such investigations and hearings, either public or private, as it may deem appropriate."

And in lieu thereof to insert the following:

"(c) Certain investment companies: If the Securities and Exchange Commission determines in accordance with regulations issued by it, and certifies to the Secretary not more than 60 days prior to the close of the taxable year of a registered management investment company, that such investment company is principally engaged in the furnishing of capital to other corporations which are principally engaged in the development or exploitation of inventions, technological improvements, new processes, or products not previously generally available, such investment company may, in the computation of 50 percent of the value of its assets under subparagraph (A) of subsection (b) (3) for any quarter of such taxable year, include the value of any securities of an issuer, notwithstanding the fact that such investment company holds more than 10 percent of the outstanding voting securities of such issuer, but only if the investment company has not continuously held any security of such issuer (or of any predecessor company of such issuer as determined under regulations prescribed by the Secretary) for 10 or more years preceding such quarter of such taxable year. The provisions of this subsection shall not apply at the close of any quarter of a taxable year to an investment company if at the close of such quarter more than 25 percent of the value of its total assets is represented by securities of issuers with respect to each of which the investment company holds more than 10 percent of the outstanding voting securities of such issuer and in respect of each of which or any predecessor thereof the investment company has continuously held any security for 10 or more years preceding such quarter unless the value of its total assets so represented is reduced to 25 percent or less within 30 days after the close of such quarter. The terms used in this subsection shall have the same meaning as in subsection (b) (3) of this section. For the purposes of this subsection, unless the Securities and Exchange Commission determines otherwise, a corporation shall be considered to be principally engaged in the development or exploitation of inventions, technological improvements, new processes, or products not previously generally available, for at least 10 years after the date of the first acquisition of any security in such corporation or any predecessor thereof by such investment company if at the date of such acquisition the corporation or its predecessor was principally so engaged, and an investment company shall be considered at any date to be furnishing capital to any company whose securities it holds if within 10 years prior to such date it has acquired any of such securities, or any securities surrendered in exchange therefor, from such other company or predecessor thereof. For the purposes of the certification hereunder, the Securities and Exchange Commission shall have authority to issue such rules, regulations, and orders, and to conduct such investigations and hearings, either public or private, as it may deem appropriate."

The next amendment was, at the top of page 200, to insert a new section, as follows:

"SEC. 337. Exchanges and distributions in obedience to orders of Securities and Exchange Commission.

"(a) Definition of system group: Section 373 (d) (1) (relating to the definition of the term 'system group') is hereby amended to read as follows:

"(1) At least 90 per centum of each class of the stock (other than (A) stock which is preferred as to both dividends and assets, and (B) stock which is limited and preferred as to dividends but which is not preferred as to assets but only if the total value of such stock is less than 1 percent of the aggregate value of all classes of stock which are not preferred as to both dividends and assets) of each of the corporations (except the common parent corporation) is owned directly by one or more of the other corporations; and."

"(b) Effective date: The amendment made by subsection (a) shall be applicable with respect to taxable years affected by an exchange or distribution made after December 31, 1947."

The next amendment was, on page 200, after line 20, to insert a new section, as follows:

"SEC. 338. Taxation of business income of State colleges and universities.

"(a) Amendment of section 421 (b): Section 421 (b) (1) (organizations subject to tax under supplement U) is hereby amended to read as follows:

"(1) Organizations taxable as corporations:

"(A) Organizations exempt under section 101 (1), (6), (7), and 14: The taxes imposed by subsection (a) (1) shall apply in the case of any organization (other than a church, a convention or association of churches, or a trust described in paragraph (2)) which is exempt, except as provided in this supplement, from taxation under this chapter by reason of paragraph (1), (6), or (7) of section 101. Such taxes shall also apply in the case of a corporation described in section 101 (14) if the income is payable to an organization which itself is subject to the tax imposed by subsection (a) or to a church or to a convention or association of churches.

"(B) State colleges and universities.—The taxes imposed by subsection (a) (1) shall apply in the case of any college or university which is an agency or instrumentality of any government or any political subdivision thereof, or which is owned or operated by a government or any political subdivision thereof or by any agency or instrumentality of any one or more governments or political subdivisions. Such taxes shall also apply in the case of any corporation wholly owned by one or more such colleges or universities."

"(b) Unrelated trade or business: Section 422 (b) (definition of unrelated trade or business) is hereby amended as follows:

"(1) By inserting after 'under section 101' the following: '(or, in the case of an organization described in section 421 (b) (1) (B), to the exercise or performance of any purpose or function described in section 101 (6)).'

"(2) By inserting in paragraph (2) thereof after 'section 101 (6)' the following: 'or in the case of a college or university described in section 421 (b) (1) (B).'

"(c) Effective date: The amendments made by this section shall be applicable only with respect to taxable years beginning after December 31, 1951."

The next amendment was, on page 202, line 18, to change the section number from "313" to "339"; and on page 203, after line 22, to strike out:

"(c) Effective date: The amendments made by this section shall be applicable with respect to taxable years beginning after De-

cember 31, 1950. The determination as to whether a person shall be recognized as a partner for income tax purposes for any taxable year beginning before January 1, 1951, shall be made as if this section had not been enacted and without inferences drawn from the fact that this section is not expressly made applicable with respect to taxable years beginning before January 1, 1951."

And in lieu thereof to insert the following:

"(c) Effective date:

"(1) General rule: Except as otherwise provided in this subsection, the amendments made by this section shall be applicable only with respect to taxable years beginning after December 31, 1950.

"(2) Retroactive applications: At the election of a taxpayer made in accordance with regulations prescribed by the Secretary, the amendments made by this section shall also be applicable with respect to such taxable years beginning after December 31, 1938, and before January 1, 1951, as are specified by the taxpayer in making such election. Such election for any taxable year shall not be valid unless, prior to the expiration of 90 days after the filing of such election (or such longer period as the Secretary may by regulations prescribe) each family partner of the taxpayer files, in accordance with such regulations, a written consent to the application of such amendments to his taxable years corresponding to the taxable years for which the election is made by the taxpayer. In lieu of such consent by any family partner, there may be paid, under regulations prescribed by the Secretary and within the time provided for filing such consent, an amount equal to the deficiency and interest which would be assessed with respect to such family partner if he filed such consent. Such election, and any consent filed in respect of such election, shall be applicable only to such partnerships as are specified in the election. For the purpose of this subsection, the term 'family partner' means any person who upon the filing of such consent would be liable for a deficiency attributable to income considered, but for the application of the amendments made by this section, as income of the taxpayer. The period of limitations provided in sections 275 and 276 of the Internal Revenue Code on the making of assessments and the beginning of distraint or a proceeding in court for collection shall with respect to any deficiency and interest thereon resulting from any such election or consent include 1 year immediately following the date such election or consent is filed, and such assessment and collection may be made notwithstanding any provision of law or any rule of law which otherwise would prevent such assessment and collection. If an election by a taxpayer should be filed for a taxable year for which allowance of credit or refund of an overpayment is barred (at the time of such filing) by any law or rule of law, any consent filed by a family partner of the taxpayer with respect to such year shall be void.

"(3) Taxable year of partner different from taxable year of partnership: In applying paragraphs (1) and (2) of this subsection where the taxable year of the taxpayer or a family partner is different from the taxable year of the partnership—

"(A) if a taxable year of the partnership ending in 1951 ends within or with a taxable year of the taxpayer or a family partner which began before January 1, 1951, the amendments made by this section shall be applicable, with respect to the distributive shares of income derived by the taxpayer and the family partners from such taxable year of the partnership, only pursuant to the provisions of paragraph (2) of this subsection, notwithstanding that paragraph (1) of

this subsection might otherwise be applicable to some of the partners.

"(B) if a taxable year of the partnership ending in 1939 ended within or with a taxable year of the taxpayer or a family partner which began before January 1, 1939, the amendments made by this section shall not be applicable with respect to any of the distributive shares of income derived by the taxpayer and the family partners from such taxable year of the partnership, notwithstanding that paragraph (2) of this subsection might otherwise be applicable to some of the partners."

The next amendment was, on page 207, after line 5, to insert a new section, as follows:

"SEC. 340. War losses.

"Tax upon war loss recovery: Section 127 (c) (relating to recoveries included in gross income) is hereby amended to read as follows:

"(c) Recoveries:

"(1) General rule: Upon the recovery in the taxable year of any money or property in respect of property considered under subsection (a) as destroyed or seized in any prior taxable year, the amount of such recovery shall be included in gross income to the extent provided in paragraph (2), unless the provisions of paragraph (3) are applicable to the taxable year pursuant to an election made by the taxpayer under the provisions of paragraph (5).

"(2) Inclusion in gross income—

"(A) Amount of recovery: The amount of the recovery of any money or property in respect of property considered under subsection (a) as destroyed or seized in any prior taxable year shall be an amount equal to the aggregate of such money and the fair market value of such property, determined as of the date of the recovery.

"(B) Amount of gain includible: To the extent that the amount of the recovery plus the aggregate of the amounts of previous such recoveries do not exceed that part of the aggregate of the allowable deductions in prior taxable years on account of the destruction or seizure of property described in subsection (a) which did not result in a reduction of any tax of the taxpayer under this chapter or chapter 2, such amount shall not be includible in gross income and shall not be deemed gain upon the involuntary conversion of property as a result of its destruction or seizure. To the extent that such amount plus the aggregate of the amounts of previous such recoveries exceed that part of the aggregate of such deductions, which did not result in a reduction of any tax of the taxpayer under this chapter or chapter 2 and do not exceed that part of the aggregate of such deductions which did result in a reduction of any tax of the taxpayer under this chapter or chapter 2, such amount shall be included in gross income but shall not be deemed a gain upon the involuntary conversion of property as a result of its destruction or seizure. To the extent that such amount plus the aggregate of the amounts of previous such recoveries exceed the aggregate of the allowable deductions in prior taxable years on account of the destruction or seizure of property described in subsection (a), such amount shall be considered a gain upon the involuntary conversion of property as a result of its destruction or seizure and shall be recognized or not recognized as provided in section 112 (f). If for any previous taxable year the taxpayer chooses under subsection (b) to treat any obligations and liabilities as discharged or satisfied out of the property or interest described in subsection (a), and if such obligations and liabilities were not so discharged or satisfied, the amount of such obligations and liabilities treated as discharged or satisfied under subsection (b) shall be considered for the purposes of this section as a deduc-

tion by reason of this section which did not result in a reduction of any tax of the taxpayer under this chapter or chapter 2. For the purposes of this paragraph an allowable deduction for any taxable year on account of the destruction or seizure of property described in subsection (a) shall, to the extent not allowed in computing the tax of the taxpayer for such taxable year, be considered an allowable deduction which did not result in a reduction of any tax of the taxpayer under this chapter or chapter 2.

"(3) Tax adjustment measured by prior benefits: If the provisions of this paragraph are applicable to the taxable year pursuant to an election made by the taxpayer under the provisions of paragraph (5)—

"(A) Amount of recovery: The amount of the recovery in the taxable year of any money or property in respect of property considered under subsection (a) as destroyed or seized in any prior taxable year shall be an amount equal to the aggregate of such money and the fair market value of such property, determined as of the date of the recovery. For the purpose of this paragraph, in the case of the recovery of the same property or interest considered under subsection (a) as destroyed or seized, the fair market value of such property or interest shall not exceed the adjusted basis (for determining loss) of such property or interest in the hands of the taxpayer on the date of the loss.

"(B) Adjustment for prior tax benefits: That part of the amount of the recovery, in respect of any property considered under subsection (a) as destroyed or seized, which is not in excess of the allowable deductions in prior taxable years on account of such destruction or seizure of the property (the amount of such allowable deductions being first reduced by the aggregate amount of any prior recoveries in respect of the same property) shall not be included in gross income for the taxable year of the recovery for the purpose of computing the tax under this chapter and chapter 2; but there shall be added to, and assessed and collected as a part of, the tax under this chapter for the taxable year of the recovery the total increase in the tax under this chapter and chapter 2 for all taxable years which would result by decreasing, in an amount equal to such part of the recovery, such deductions allowable in the prior taxable years with respect to the destruction or seizure of the property. Such increase in the tax for each such year so resulting shall be computed in accordance with regulations prescribed by the Secretary. Such regulations shall give effect to previous recoveries of any kind with respect to any prior year, and shall provide for the case where there was no tax for the prior year, but shall otherwise treat the tax previously determined for any year in accordance with the principles set forth in section 3801 (d). All credits allowable against the tax for any year and all carryovers and carry-backs affected by so decreasing the allowable deductions shall be taken into account in computing the increase in the tax.

"(C) Gain upon recovery: The amount of any recovery or part thereof, in respect of property considered under subsection (a) as destroyed or seized which is not subject to the provisions of subparagraph (B) shall be considered for the taxable year of the recovery as gain on the involuntary conversion of property as a result of its destruction or seizure and shall be recognized or not recognized as provided in section 112 (f).

"(D) Recoveries treated as gross income for certain purposes: For the purposes of sections 51, 52, and 3801 (b) the recovery in the taxable year of any money or property in respect of property considered under subsection (a) as destroyed or seized in any prior taxable year shall be deemed to be an item includible in gross income for the taxable year in which the recovery is made.

"(4) Restoration of value of investments referable to destroyed or seized property: For the purpose of this subsection the restoration in whole or in part of the value of any interest described in subsection (a) (3) by reason of any recovery of money or property in respect of property to which such interest related and which was considered under subsection (a) (1) or (2) as destroyed or seized shall be deemed a recovery of property in respect of property considered under subsection (a) as destroyed or seized. In applying paragraph (3) such restoration shall be treated as the recovery of the same interest considered under subsection (a) as destroyed or seized.

"(5) Election by taxpayer for application of paragraph (3): If the taxpayer elects to have the provisions of paragraph (3) applicable to any taxable year in which he recovered any money or property in respect of property considered under subsection (a) as destroyed or seized, the provisions of paragraph (3) shall be applicable to all taxable years of the taxpayer beginning after December 31, 1940, other than a taxable year for which, at the time of making such election, a refund or credit of the entire amount of any overpayment (resulting from an application of par. (3) to such year) would be prevented by section 322 or by the provisions of any other law or rule of law. Such election shall be made in accordance with regulations prescribed by the Secretary. If pursuant to such election the provisions of paragraph (3) are applicable to any taxable year, then the time for assessment and collection of—

"(A) the amount to be added to the tax for such year under the provisions of paragraph (3), and

"(B) any deficiency for such year or for any other taxable year, to the extent attributable to basis of the recovered property being determined under the provisions of subsection (d) (2),

shall not expire prior to the expiration of 2 years following the time of the making of such election, and such amount and such deficiency may be assessed at any time prior to the expiration of such period notwithstanding any law or rule of law which would otherwise prevent such assessment. In the case of any taxable year ending before the date of the making by the taxpayer of an election under this paragraph, no interest shall be paid on any overpayment resulting from the making of such election, and no interest shall be assessed or collected with respect to the amount specified in clause (A) or with respect to any deficiency specified in clause (B), for any period prior to the expiration of 6 months following the date of the making of such election by the taxpayer."

"(b) Basis of recovered property: Section 127 (d) (relating to basis of recovered property) is hereby amended to read as follows:

"(d) Basis of recovered property:

"(1) In general: The unadjusted basis of property recovered in respect of property considered as destroyed or seized under subsection (a) shall be determined under this subsection. Such basis shall be an amount equal to the fair market value of such property, determined as of the date of the recovery, reduced by an amount equal to the excess of the aggregate of such fair market value and the amounts of previous recoveries of money or property in respect of property considered under subsection (a) as destroyed or seized over the aggregate of the allowable deductions in prior taxable years on account of the destruction or seizure of property described in subsection (a), and increased by that portion of the amount of the recovery which under subsection (c) is treated as a recognized gain from the involuntary conversion of property. Upon application of the taxpayer, the aggregate of the

bases (determined under the preceding sentence) of any properties recovered in respect of properties considered under subsection (a) as destroyed or seized may be allocated among the properties so recovered in such manner as the Secretary may determine under regulations prescribed by him, and the amounts so allocated to any such property so recovered shall be the unadjusted basis of such property in lieu of the unadjusted basis of such property determined under the preceding sentence.

"(2) Property recovered in taxable year to which subsection (c) (3) is applicable: If property is recovered in a taxable year to which the provisions of subsection (c) (3) are applicable pursuant to an election made under the provisions of subsection (c) (5), the basis of such property shall be (in lieu of the amount determined under paragraph (1) of this subsection) an amount equal to the value at which such property is included in the amount of the recovery under subsection (c) (3) (A), reduced by such part of the gain under subsection (c) (3) (C) which is not recognized as provided in section 112 (f)."

"(c) Credit for foreign taxes: Section 131 (c) (relating to allowance of credit for taxes of foreign countries and possessions of the United States) is hereby amended by inserting after 'section 102' the following: 'and except the additional tax imposed for the taxable year under the provisions of section 127 (c) (3).'

"(d) Effective dates: The amendments made by this section shall be applicable to taxable years beginning after December 31, 1940."

The next amendment was, at the top of page 217, to insert a new section, as follows:

"Sec. 341. Deduction of expenditures for mine exploration.

"(a) Deduction of mine exploration expenditures: Section 23 (relating to deductions from gross income) is hereby amended by adding at the end thereof the following new subsection:

"(ff) Deduction of exploration expenditures:

"(1) In general: In the case of expenditures paid or incurred during the taxable year for the purpose of ascertaining the existence, location, extent, or quality of any deposit of ore or other mineral, and paid or incurred prior to the beginning of the development stage of the mine or deposit, so much of such expenditures as does not exceed \$75,000. This subsection shall apply only with respect to the amount of such expenditures which, but for this subsection, would not be allowable as a deduction for the taxable year. This subsection shall not apply to expenditures for the acquisition or improvement of property of a character which is subject to the allowance for depreciation provided in section 23 (1), but allowances for depreciation shall be considered, for the purposes of this subsection, as expenditures paid or incurred. In no case shall this subsection apply with respect to amounts paid or incurred for the purpose of ascertaining the existence, location, extent, or quality of any deposit of oil or gas.

"(2) Election of taxpayer: If the taxpayer elects, in accordance with regulations prescribed by the Secretary, to treat as deferred expenses any portion of the amount deductible for the taxable year under paragraph (1), such portion shall not be deductible under paragraph (1) but shall be deductible on a ratable basis as the units of produced ores or minerals discovered or explored by reason of such expenditures are sold. An election made under this paragraph for any taxable year shall be binding for such year.

"(3) Limitation: This subsection shall not apply to any amounts paid or incurred in any taxable year if in any four preceding

years the taxpayer, or any individual or corporation who has transferred to the taxpayer any mineral property under circumstances which make the provisions of paragraph (7), (8), (11), (13), (15), (17), (20), or (22) of section 113 (a) applicable to such transfer, has either (A) been allowed a deduction under paragraph (1) of this subsection or (B) made the election provided under paragraph (2) of this subsection.

"(4) Adjusted basis of mine or deposit: The amount of expenditures which are treated under paragraph (2) as deferred expenses shall be taken into account in computing the adjusted basis of the mine or deposit, but such amounts, and the adjustments to basis provided in section 113 (b) (1) (M) shall be disregarded in determining the adjusted basis of the property for the purpose of computing a deduction for depletion under section 114."

"(b) Adjusted basis for determining gain or loss upon sale or exchange: Section 113 (b) (1) (relating to adjusted basis of property) is hereby amended by adding at the end thereof the following:

"(M) for amounts allowed as deductions as deferred expenses under section 23 (ff) (2) (relating to certain exploration expenditures) and resulting in a reduction of the taxpayer's taxes under this chapter, but not less than the amounts allowable under such section for the taxable year and prior years."

"(c) Effective date: The amendments made by this section shall be applicable to taxable years ending after December 31, 1950."

The next amendment was, at the top of page 220, to insert a new section, as follows:

"Sec. 342. Corporate liquidations.

"(a) Treatment of gain: Section 115 (relating to distributions by corporations) is hereby amended by adding at the end thereof the following new subsection:

"(n) Liquidation with distribution of stock in real estate corporation: If a corporation, pursuant to a plan of liquidation, exchanges part of its assets consisting of unimproved real estate solely for the entire stock of a newly organized corporation and within a period of 24 months from the date of adoption of the plan of liquidation all of the assets of such corporation together with the stock in such new corporation are distributed in liquidation, the amounts so distributed shall be deemed amounts distributed in complete liquidation of such corporation and the recognized gain, if any, to the shareholders from such liquidation shall be treated as a capital gain, despite any other provision of this chapter. This subsection shall apply only—

"(1) if the business of the old corporation is discontinued,

"(2) if the corporation to which the unimproved real estate was transferred was organized and is operated for the sole purpose of holding title to such real estate and collecting income from the leasing or sale thereof, and

"(3) if there was a sound business reason for organizing such new corporation to hold title to the unimproved real estate."

"(b) Effective date: The amendment made by this section shall apply to taxable years beginning after December 31, 1947."

The next amendment was, on page 221, after line 5, to insert a new section, as follows:

"Sec. 343. Definition of employee.

"(a) Amendment of section 3797 (a): Section 3797 (a) is amended by adding at the end thereof the following new paragraph:

"(20) Employee: For the purpose of applying the provisions of chapter 1 with respect to contributions to or under a stock bonus, pension, profit-sharing, or annuity plan, and with respect to distributions under

such a plan or by a trust forming part of such a plan, the term "employee" shall include a full-time life insurance salesman who is considered an employee for the purpose of subchapter A of chapter 9, or, in the case of services performed before January 1, 1951, who would be considered an employee if his services were performed during 1951."

"(b) Effective date: The amendment made by this section shall be applicable with respect to taxable years beginning after December 31, 1938."

The next amendment was, under the heading "Title IV—Excise taxes—Part I—Tax on admissions and cabarets," on page 222, line 6, after the word "the", to strike out "second and fourth" and insert "second, fourth, and fifth."

The next amendment was, on page 222, after line 13, to strike out:

"(b) Amendment of section 1701 (a): Section 1701 (a) (relating to religious, educational, or charitable entertainments) is hereby amended to read as follows:

"(a) Religious, educational, or charitable entertainments, etc.

"(1) In general: Except as provided in paragraph (2), any admissions all the proceeds of which inure—

"(A) exclusively to the benefit of religious, educational, or charitable institutions, societies, or organizations, societies for the prevention of cruelty to children or animals, or societies or organizations conducted for the sole purpose of maintaining symphony orchestras and receiving substantial support from voluntary contributions or of maintaining a cooperative or community center moving-picture theater—if no part of the net earnings thereof inures to the benefit of any private stockholder or individual;

"(B) exclusively to the benefit of National Guard organization, Reserve Officers' associations or organizations, posts, or organizations of war veterans, or auxiliary units or societies of any such posts or organizations, if such posts, organizations, units, or societies are organized in the United States or any of its possessions, and if no part of their net earnings inures to the benefit of any private stockholder or individual; or

"(C) exclusively to the benefit of a police or fire department of any city, town, village, or other municipality, or exclusively to a fund for the sole benefit of members of such a police or fire department or the dependents or heirs of such members.

"(2) Nonexempt admissions: The exemption provided under paragraph (1) shall not apply in the case of admissions to (A) any athletic game or exhibition unless the proceeds inure exclusively to the benefit of an elementary or secondary school, (B) wrestling matches, prize fights, or boxing, sparring, or other pugilistic matches or exhibitions, or (C) carnivals, rodeos, or circuses in which any professional performer or operator participates for compensation."

And in lieu thereof to insert the following:

"(b) Amendment of section 1701 (a) and (b): Subsections (a) and (b) of section 1701 (relating to exemptions from admissions tax) are hereby amended to read as follows:

"(a) Certain religious, educational, or charitable entertainments, etc.—

"(1) In general: Except as provided in paragraph (2), any admissions all the proceeds of which inure—

"(A) exclusively to the benefit of—

"(i) a church or a convention or association of churches;

"(ii) an educational institution which is exempt under section 101 (6) or which is an educational institution of a government or political subdivision thereof, if such organization normally maintains a regular faculty and curriculum and normally has a

regularly organized body of pupils or students in attendance at the place where its educational activities are regularly carried on;

"(iii) a corporation or any community chest, fund, or foundation organized and operated exclusively for charitable purposes, exempt under section 101 (6), if such corporation or organization is supported, in whole or in part, by funds contributed by the United States or any State or political subdivision thereof, or is primarily supported by contributions from the general public;

"(iv) a society or organization conducted for the sole purpose of maintaining symphony orchestras or operas and receiving substantial support from voluntary contributions—

if no part of the net earnings thereof inures to the benefit of any private stockholder or individual;

"(B) exclusively to the benefit of National Guard organizations, Reserve officers' associations or organizations, posts or organizations of war veterans, or auxiliary units or societies of any such posts or organizations, if such posts, organizations, units, or societies are organized in the United States or any of its possessions, and if no part of their net earnings inures to the benefit of any private stockholder or individual; or

"(C) exclusively to the benefit of a police or fire department of any city, town, village, or any municipality or exclusively to a retirement, pension, or disability fund for the sole benefit of members of such a police or fire department or to a fund for the heirs of such members.

"(2) Nonexempt admissions: The exemption provided under paragraph (1) shall not apply in the case of admissions to (A) any athletic game or exhibition unless the proceeds inure exclusively to the benefit of an elementary or secondary school, (B) wrestling matches, prize fights, or boxing, sparring, or other pugilistic matches or exhibitions, (C) carnivals, rodeos, or circuses in which any professional performer or operator participates for compensation, or (D) any motion-picture exhibition.

"(b) Agricultural fairs: Any admissions to agricultural fairs if no part of the net earnings thereof inure to the benefit of any stockholders or members of the association conducting the same—if the proceeds therefrom are used exclusively for the improvement, maintenance, and operation of such agricultural fairs; or."

On page 227, line 5, after the word "new", to strike out "subsection" and insert "subsections"; in line 15, after the word "of", to strike out "Columbia." and insert "Columbia; or"; and after line 15, to insert the following:

"(e) (1) Home and garden tours: Any admission to a home or garden which is temporarily opened to the general public as part of a program conducted by a society or organization to permit the inspection of historical homes and gardens—if no part of the net earnings thereof inures to the benefit of any private stockholder or individual.

"(2) Historic sites: Any admissions to historic sites, houses, and shrines, and museums conducted in connection therewith, maintained and operated by a society or organization devoted to the preservation and maintenance of such historic sites, houses, shrines, and museums—if no part of the net earnings thereof inures to the benefit of any private stockholder or individual."

The next amendment was, under the subhead "Part II—Tax on cigarettes," on page 229, line 5, after the word "out", to strike out "\$3.50" and inserting in lieu thereof "\$4," and insert "\$3.50 per thousand" and inserting in lieu thereof "\$4 per thousand until January 1, 1954, and \$3.50 per thousand on and after January 1, 1954."

The next amendment was, on page 229, line 13, after the word "Tax", to insert "And Floor Stocks Refund"; in line 17, after the word "new", to strike out "subsection" and insert "subsections"; on page 230, line 22, after the word "this", to strike out "subsection." and insert "subsection."; and after line 22, to insert:

"(g) Floor stocks refunds on cigarettes.—

"(1) In general: With respect to cigarettes, weighing not more than 3 pounds per thousand, upon which the tax imposed by subsection (c) (2), or upon which floor stocks tax imposed by subsection (f), has been paid, and which, on January 1, 1954, are held by any person and intended for sale, or are in transit from foreign countries or insular possession of the United States to any person in the United States for sale, there shall be credited or refunded to such person (without interest), subject to such regulations as may be prescribed by the Secretary, an amount equal to the difference between the tax paid on such cigarettes and the tax made applicable to such articles on January 1, 1954, if claim for such credit or refund is filed with the Secretary prior to April 1, 1954.

"(2) Limitations on eligibility for credit or refund: No person shall be entitled to credit or refund under paragraph (1) unless (A) such person, for such period or periods both before and after January 1, 1954 (but not extending beyond 1 year thereafter), as the Secretary shall by regulations prescribe, makes and keeps, and files with the Secretary such records of inventories, sales, and purchases as may be prescribed in such regulations; and (B) such person establishes to the satisfaction of the Secretary, with respect to the cigarettes for which credit or refund is claimed by him under this section, that on and after January 1, 1954, and until the expiration of 3 months thereafter, the price at which cigarettes of such class were sold (until a number equal at least to the number on hand on January 1, 1954, were sold) reflected, in such manner as the Secretary may by regulations prescribe, the amount of the tax reduction.

"(3) Penalty and administrative procedures: All provisions of law, including penalties, applicable in respect of internal revenue taxes on cigarettes shall, insofar as applicable and not inconsistent with this subsection, be applicable in respect of the credits and refunds provided for in this subsection to the same extent as if such credits or refunds constituted credits or refunds of such taxes."

The next amendment was, on page 232, after line 14, to insert a new section, as follows:

"SEC. 423. Reduction of tax on snuff and chewing tobacco.

"(a) Reduction in rate: Section 2000 (a) (relating to tax on tobacco and snuff) is hereby amended by striking out paragraphs (1) and (2) and inserting in lieu thereof the following:

"(1) Snuff and chewing tobacco: On snuff, manufactured of tobacco or any substitute for tobacco, ground, dry, damp, pickled, scented, or otherwise, of all descriptions, when prepared for use; and on all scrap chewing, plug, twist, fine-cut, or cavendish tobacco; a tax of 10 cents per pound.

"(2) Smoking tobacco: On all smoking tobacco, cut or granulated, of every description; on tobacco reduced into a condition to be consumed, or in any manner other than the ordinary mode of drying and curing, prepared for sale or consumption, even if prepared without the use of any machine or instrument, and without being pressed or sweetened; and on all fine-cut shorts and refuse scraps, clippings, cuttings, and sweepings of tobacco; a tax of 18 cents per pound."

"(b) Effective date.—The amendment made by subsection (a) shall take effect on the first day of the first month which begins more than 10 days after the date of the enactment of this act."

The next amendment was, under the subhead "Part III—Retailers' Excise Taxes," on page 233, after line 16, to strike out:

"SEC. 431. Tax on lighters.

"Section 2400 (relating to retailers' excise tax on jewelry, etc.) is hereby amended by striking out in the first sentence thereof the words 'and binoculars,' and inserting in lieu thereof the following: 'binoculars; and mechanical lighters for cigarettes, cigars, or pipes.'"

The next amendment was, on page 234, line 1, to change the section number from "432" to "431."

The next amendment was, on page 234, line 17, to change the section number from "433" to "432."

The next amendment was, at the top of page 235, to strike out:

"PART IV—DIESEL FUEL

"SEC. 441. Diesel fuel used in highway vehicles

"(a) Imposition of tax: The Internal Revenue Code is hereby amended by adding after chapter 19 the following new chapter:

"CHAPTER 20—DIESEL FUEL

"SEC. 2450. Tax on Diesel fuel

"There is hereby imposed a tax of 2 cents a gallon upon any liquid (other than any product taxable under section 3412)—

"(1) sold by any person to an owner, lessee, or other operator of a Diesel-powered highway vehicle, for use as a fuel in such vehicle, or

"(2) used by any person as a fuel in a Diesel-powered highway vehicle unless there was a taxable sale of such liquid under clause (1).

"SEC. 2451. Returns and payment

"(a) Requirement: Every person liable for tax under this chapter shall make returns and pay the taxes due to the collector for the district in which is located his principal place of business, or if he has no principal place of business in the United States, then to the collector at Baltimore, Md. Such returns shall contain such information and be made at such times and in such manner as the Secretary may by regulations prescribe.

"(b) Interest: The tax shall, without assessment or notice, be due and payable to the collector at the time prescribed for filing the return. If the tax is not paid when due, there shall be added as part of the tax interest at the rate of 6 percent per annum from the time when the tax became due until paid.

"SEC. 2452. Credits and refunds

"(a) Nontaxable use or sale by vendee: A credit against tax under this chapter, or a refund, may be allowed or made to a person in the amount of tax paid by him under this chapter with respect to his sale of any liquid to a vendee for use as fuel in a Diesel-powered highway vehicle, if such person establishes, in accordance with regulations prescribed by the Secretary, that—

"(1) the vendee used such liquid otherwise than as fuel in such a vehicle or resold such liquid, and

"(2) such person has repaid or agreed to repay the amount of such tax to such vendee, or has obtained the consent of the vendee to the allowance of the credit or refund.

No interest shall be allowed with respect to any amount of tax credited or refunded under the provisions of this subsection.

"(b) Proof required in case of certain overpayments: No overpayment of tax under

this chapter shall be credited or refunded (otherwise than under subsec. (a)) in pursuance of a court decision or otherwise, unless the person who paid the tax establishes, in accordance with regulations prescribed by the Secretary, (1) that he has not included the tax in the price of the article with respect to which it was imposed, or collected the amount of tax from the vendee, or (2) that he has repaid the amount of the tax to the ultimate purchaser of the article, or files with the Secretary written consent of such ultimate purchaser to the allowance of the credit or refund.

"Sec. 2453. Tax-free sales.

"Under regulations prescribed by the Secretary, no tax under this chapter shall be imposed with respect to the sale of any liquid for the exclusive use of any State, Territory of the United States, or any political subdivision of the foregoing, or the District of Columbia, or with respect to the use by any of the foregoing of any liquid as fuel in a Diesel-powered highway vehicle.

"Sec. 2454. Applicability of administrative provisions

"All provisions of law (including penalties) applicable in respect of the taxes imposed by section 2700 shall, insofar as applicable and not inconsistent with this chapter, be applicable in respect of the taxes imposed by this chapter.

"Sec. 2455. Rules and regulations

"The Secretary shall prescribe and publish all needful rules and regulations for the enforcement of this chapter."

"(b) Effective date: The amendment made by subsection (a) shall take effect on the first day of the first month which begins more than 10 days after the date of the enactment of this act."

The next amendment was, on page 238, line 14, in the subhead, after the word "Part", to strike out "V" and insert "IV"; in line 19, after the figures "\$10.50", to insert "and by inserting after the first sentence the following new sentence: 'On and after January 1, 1954, the rate of tax imposed by this paragraph shall be \$9 in lieu of \$10.50.'"; at the top of page 239, to insert "and by adding at the end thereof the following new sentence: 'On and after January 1, 1954, the rate of tax imposed by this paragraph shall be \$9 in lieu of \$10.50.'"; in line 9, after the word "section", to strike out "451" and insert "441", and in line 20, after the word "section", to strike out "451" and insert "441."

The next amendment was, on page 240, line 13, to change the section number from "452" to "442"; in line 23, after the word "section", to strike out "452" and insert "442"; on page 241, line 8, after the word "weight", to insert "except that on and after January 1, 1954, the rate shall be 15 cents per wine-gallon"; in line 13, after the word "wine-gallon", to insert "except that on and after January 1, 1954, the rate shall be 60 cents per wine-gallon"; in line 18, after the word "wine-gallon", to insert "except that on and after January 1, 1954, the rate shall be \$2 per wine-gallon"; on page 242, line 5, after the word "section", to strike out "452" and insert "442"; after line 6, to strike out:

"(B) By striking out '10 cents' and inserting in lieu thereof '17 cents'; and

"(C) By striking out '5 cents' each place it occurs and inserting in lieu thereof '12 cents'."

And in lieu thereof to insert the following:

"(B) by striking out '10 cents on each one-half pint or fraction thereof' and inserting in lieu thereof '17 cents on each one-half pint or fraction thereof, except that on and after January 1, 1954, the rate shall be 15 cents

on each one-half pint or fraction thereof'; and

"(C) by striking out '5 cents on each one-half pint or fraction thereof' each place that it occurs and inserting in lieu thereof '12 cents on each one-half pint or fraction thereof, except that on and after January 1, 1954, the rate shall be 10 cents on each one-half pint or fraction thereof.'"

On page 243, line 4, after the word "section", to strike out "452" and insert "442"; in line 9, after the word "section", to strike out "452" and insert "442"; in line 13, after the word "section", to strike out "452" and insert "442", and in line 18, after the word "section", to strike out "452" and insert "442."

The next amendment was, on page 244, line 3, to change the section number from "452" to "453"; in line 8, after the word "sentence", to strike out "thereof" and insert "and inserting in lieu thereof the following: 'On and after January 1, 1954, the tax imposed by the preceding sentence shall be at the rate of \$8 in lieu of \$9.'"; in line 18, after the word "section", to strike out "453" and insert "443" on page 245, line 2, after the word "section", to strike out "453" and insert "443"; and in line 7, after the word "section", to strike out "453" and insert "443."

The next amendment was, on page 245, after line 16, to insert a new section, as follows:

"Sec. 444. Floor stocks refunds.

"(a) Amendment of section 1656 (a): Section 1656 (a) (relating to floor stocks refunds on distilled spirits, etc.) is amended to read as follows:

"(a) In general: With respect to any article upon which tax is imposed under section 2800 (a), 3030 (a), or 3150 (a), upon which internal revenue tax (including floor stocks tax) at the applicable rate prescribed by such section has been paid, and which, on January 1, 1954, is held by any person and intended for sale or for use in the manufacture or production of any article intended for sale, there shall be credited or refunded to such person (without interest), subject to such regulations as may be prescribed by the Secretary, an amount equal to the difference between the tax so paid and the rate made applicable to such articles on and after January 1, 1954, by such section, if claim for such credit or refund is filed with the Secretary prior to February 1, 1954."

"(b) Amendment of section 1656 (b): Section 1656 (b) (relating to limitations on eligibility for floor stocks refunds on distilled spirits, etc.) is amended by striking out 'the rate reduction date' wherever it appears therein and inserting in lieu thereof January 1, 1954."

The next amendment was, on page 246, line 15, to change the section number from "454" to "445."

The next amendment was, on page 247, line 1, to change the section number from "455" to "446", and in the same line, after the word "Part", to strike out "V" and insert "IV."

The next amendment was, on page 247, line 5, in the subhead, after the word "Part", to strike out "VI" and insert "V."

The next amendment was, on page 247, line 6, to change the section number from "461" to "451"; in line 10, after the word "thereof", to strike out "\$200" and insert "\$200, except that on and after July 1, 1954, such special tax shall be \$110."; in line 15, after the word "thereof", to strike out "\$50" and insert "\$50, except that on and after July 1, 1954, such special tax shall be \$27.50"; in line 20, after the word "thereof", to strike out "\$100" and insert "\$100, except that on and after July 1, 1954, such special tax shall be \$55."

The next amendment was, at the top of page 248, to change the section number from "462" to "452," and after line 3, to strike out:

"(a) Drawback: Section 3250 (1) (5) (relating to manufacture of certain nonbeverage products) is hereby amended by striking out '\$3.75' and inserting in lieu thereof '\$9.50.'"

"(b) Effective date: The amendment made by subsection (a) shall be applicable only with respect to distilled spirits used on or after the first day of the first month which begins more than 10 days after the date of the enactment of this act, and on which the internal revenue tax was paid at the rate of \$10.50 specified in section 2800 (a) (1) or at a rate equivalent to such rate.

"(c) Technical amendment: Section 309 (c) of the Revenue Act of 1943 is hereby amended by adding at the end thereof the following: 'Subsection (b) shall not be applicable in any case in which drawback is allowed at the rate of \$9.50 under section 3250 (1) (5) of the Internal Revenue Code, as amended by the Revenue Act of 1951.'"

And in lieu thereof to insert the following:

"(a) Drawback: Section 3250 (1) (5) (relating to manufacturers or producers of designated nonbeverage products) is amended to read as follows:

"(5) Drawback: In the case of distilled spirits tax-paid and used as provided in this subsection, a drawback shall be allowed—

"(A) at the rate of \$6 on each proof gallon upon which tax is paid at a rate of \$9 per proof gallon prior to the effective date of section 452 of the Revenue Act of 1951.

"(B) at the rate of \$9.50 on each proof gallon upon which tax is paid at a rate of \$10.50 per proof gallon on and after the effective date of section 452 of the Revenue Act of 1951, and

"(C) at the rate of \$8 on each proof gallon upon which tax is paid at a rate of \$9 per proof gallon after December 31, 1953.

Such drawback shall be due and payable quarterly upon filing of a proper claim with the Secretary. No claim under this subsection shall be allowed unless filed with the Secretary within the 3 months next succeeding the quarter for which the drawback is claimed."

"(b) Effective date: The amendment made by subsection (a) shall be applicable only with respect to distilled spirits used on or after the first day of the first month which begins more than 10 days after the date of the enactment of this act."

The next amendment was, on page 250, line 1, to change the section number from "463" to "453."

The next amendment was, on page 250, after line 4, to strike out:

"Sec. 464. Tax on bowling alleys and billiard and pool tables.

"(a) Increase in rate: Section 3268 (relating to rate of tax) is hereby amended by striking out '\$10' and inserting in lieu thereof '25.'

"(b) Clerical amendment: The table contained in section 1650 (relating to the war tax rates of certain miscellaneous taxes) is hereby amended by striking out the following:

"3268. Billiard and pool tables; and bowling alleys.	\$10 per year	\$20 per year
	per table; per alley.	per table; per alley."

The next amendment was, on page 250, line 14, to change the section number from "465" to "454"; in the same line, after the word "Part", to strike out "VI" and insert "V", and in line 15, after the word "sections",

to strike out "461, 463, and 464" and insert "451 and 453."

The next amendment was, on page 251, line 4, in the subhead, after the word "Part", to strike out "VII" and insert "VI."

The next amendment was, on page 251, line 5, to change the section number from "471" to "461."

The next amendment was, on page 258, line 11, to change the section number from "472" to "462"; in line 13, after the word "section", to strike out "471" and insert "461"; in line 17, after the word "section", to strike out "471" and insert "461", and in line 20, after the word "act.", to insert "in the case of any person who is liable for tax under subchapter A of chapter 27A, as added by section 461, or who is engaged in receiving wagers for or on behalf of any person so liable, and who commenced the activity which makes him subject to such tax, or who was engaged in receiving such wagers, prior to the first day of the first month specified in the preceding sentence, the tax under subchapter B of chapter 27A, as added by section 461, shall be reckoned proportionately from the first day of such month to and including the thirtieth day of June following and shall be due on, and payable on or before, the last day of the month specified in the preceding sentence."

The next amendment was, on page 259, line 7, in the subhead, after the word "Part", to strike out "VIII" and insert "VII."

The next amendment was, on page 259, line 8, to change the section number from "481" to "471"; in line 13, after the word "thereof", to strike out "'8 per centum'" and insert "'8 per centum, except that on and after January 1, 1954, the rate shall be 5 per centum'"; after line 18, to strike out:

"(b) Other chassis and bodies, etc.—

"(1) Other automobile chassis and bodies, chassis and bodies for trailers and semitrailers (other than house trailers) suitable for use in connection with passenger automobiles, and motorcycles (including in each case parts or accessories therefor sold on or in connection therewith or with the sale thereof), except tractors, 10 percent.

"(2) Chassis and bodies for house trailers (including in each case parts or accessories therefor sold on or in connection therewith or with the sale thereof), 7 percent.

A sale of an automobile, trailer, or semitrailer shall, for the purposes of this subsection, be considered to be a sale of the chassis and of the body."

And in lieu thereof to insert the following:

"(b) Other chassis and bodies, etc.: Other automobile chassis and bodies, chassis and bodies for trailers and semitrailers (other than house trailers) suitable for use in connection with passenger automobiles, and motorcycles (including in each case parts or accessories therefor sold on or in connection therewith or with the sale thereof), except tractors, 10 percent, except that on and after January 1, 1954, the rate shall be 7 percent. A sale of an automobile, trailer, or semitrailer shall, for the purposes of this subsection, be considered to be a sale of the chassis and of the body."

On page 260, line 23, after the word "thereof", to strike out "'8 per centum'" and insert "'8 per centum, except that on and after January 1, 1954, the rate shall be 5 per centum'"; on page 261, line 13, after the word "thereof", to strike out "'in the case of an article taxable under subsection (a), 8 per centum, in the case of an article taxable under subsection (b) (1), 10 per centum, and in the case of an article taxable under subsection (b) (2), 7 per centum'" and insert "'in the case of an article taxable under subsection (a) or subsection (b), the applicable percentage rate of tax provided in such subsections'."

The next amendment was, on page 263, line 1, to change the section number from "482" to "472"; on page 265, line 11, after

the word "amended", to strike out "by adding at the end thereof the following: This" and insert "to read as follows:"; in line 13, before the word "section", to insert "(b) This", and in line 23, after the word "section", to strike out "489" and insert "480."

The next amendment was, on page 266, after line 5, to insert a new section, as follows:

"SEC. 473. Tax-free sales of refrigerator components to wholesalers for resale to manufacturers.

"Section 3405 (b) is hereby amended by inserting '(hereinafter referred to as "refrigerating equipment")' before the period at the end of the first sentence and by striking out the second and third sentences and inserting in lieu thereof the following: 'Under regulations prescribed by the Secretary, the tax under this subsection shall not apply in the case of sales of any such refrigerator components by the manufacturer, producer, or importer to (1) a manufacturer or producer of refrigerating equipment, or (2) a vendee for resale to a manufacturer or producer of refrigerating equipment if such components are in due course so resold. If any such refrigerator components are resold by the manufacturer or producer to whom sold or resold otherwise than on or in connection with, or with the sale of, complete refrigerating equipment manufactured or produced by him, then for the purposes of this section such manufacturer or producer shall be considered the manufacturer or producer of the refrigerator components so resold by him.'"

The next amendment was, at the top of page 267, to strike out:

"SEC. 483. Repeal of tax on certain sporting goods; increase in tax on remaining sporting goods.

"Section 3406 (a) (1) (relating to manufacturers' excise tax on sporting goods) is hereby amended to read as follows:

"(1) Sporting goods: Badminton nets; badminton rackets (measuring 22 inches over-all or more in length; badminton racket frames (measuring 22 inches over-all or more in length); badminton racket string; badminton shuttlecocks; badminton standards; baseballs; baseball bats (measuring 26 inches or more in length); baseball body protectors and shin guards; baseball gloves and mitts; baseball masks; billiard and pool tables (measuring 45 inches over-all or more in length); billiard and pool balls and cues for such tables; bowling balls and pins; clay pigeons and traps for throwing clay pigeons; croquet balls and mallets; curling stones; deck tennis rings, nets, and posts; fishing rods, creels, reels, and artificial lures, baits, and flies; golf bags (measuring 26 inches or more in length); golf balls; golf clubs (measuring 30 inches or more in length); polo balls; polo mallets; skis; ski poles; snow shoes; squash balls; squash rackets (measuring 22 inches over-all or more in length); squash racket frames (measuring 22 inches over-all or more in length); squash racket string; table tennis tables, balls, nets, and paddles; tennis balls; tennis nets; tennis rackets (measuring 22 inches over-all or more in length); tennis racket frames (measuring 22 inches over-all or more in length); tennis racket string; 15 percent."

And in lieu thereof to insert the following:

"SEC. 474. Sporting goods.

"Section 3406 (a) (1) (relating to manufacturers' excise tax on sporting goods) is hereby amended to read as follows:

"(1) Sporting goods: Badminton nets; badminton rackets (measuring 22 inches over all or more in length); badminton racket frames (measuring 22 inches over all or more in length); badminton racket string; badminton shuttlecocks; badminton standards; billiard and pool tables (measuring 45 inches

over all or more in length); billiard and pool balls and cues for such tables; bowling balls and pins; clay pigeons and traps for throwing clay pigeons; croquet balls; cricket bats; croquet balls and mallets; curling stones; deck tennis rings, nets, and posts; golf bags (measuring 26 inches or more in length); golf balls; golf clubs (measuring 30 inches or more in length); lacrosse balls; lacrosse sticks; polo balls; polo mallets; skates; skis; ski poles; snow shoes; snow toboggans and sleds; squash balls; squash rackets (measuring 22 inches over all or more in length); squash racket frames (measuring 22 inches over all or more in length); squash racket string; table tennis tables, balls, nets, and paddles; tennis balls; tennis nets; tennis rackets (measuring 22 inches over all or more in length); tennis racket frames (measuring 22 inches over all or more in length); tennis racket string; 15 percent; fishing rods, creels, reels, and artificial lures, baits, and flies; 10 percent."

The next amendment was, on page 269, line 5, to change the section number from "484" to "475"; in the same line, after the amendment just above stated, to strike out "Addition of certain items to the tax on electric, gas, and oil appliances; removal of tax on electric heating pads" and insert "electric, gas, and oil appliances"; at the beginning of line 9, to insert "(a) Items subject to tax."; in line 11, after "(1)" to insert "by inserting after 'Electric direct motor-driven fans and air circulators' the following: '(not of the industrial type)', (2) by striking out 'electric air heaters (not including furnaces)' and inserting in lieu thereof 'electric air heaters (not including furnaces and electric air heaters of the blower type)', (3) "; in line 19, before the word "by", to strike out "(2)" and insert "(4)"; in line 21, after the word "fans", to insert "electric exhaust blowers"; on page 270, line 2, after the word "pressers", to strike out "electric shavers"; and insert "electric vacuum cleaners; electric washing machines; electric garbage disposal units", and on page 270, after line 4, to insert:

"(b) Determination of sale price: Section 3441 (b) is hereby amended by striking out "or" at the end of clause (2), by inserting "or" at the end of clause (3), and by adding after clause (3) the following new clause:

"(4) sold at retail under an arrangement whereby the manufacturer negotiates the sale on behalf of the retailer."

The next amendment was, on page 270, after line 11, to strike out:

"SEC. 485. Adjustments of tax rates on photographic apparatus and film; repeal of tax on certain items.

"(a) Items subject to tax: Section 3406 (a) (4) (relating to the manufacturers' excise tax on photographic apparatus) is hereby amended to read as follows:

"(4) Photographic apparatus: Cameras and camera lenses, and unexposed photographic film in rolls (including motion picture film), 20 percent. The tax imposed under this paragraph shall not apply to X-ray cameras, to cameras weighing more than four pounds exclusive of lens and accessories to still camera lenses having a focal length of more than one hundred and twenty millimeters, to motion picture camera lenses having a focal length of more than thirty millimeters, to X-ray film, to film more than one hundred and fifty feet in length, or to film more than twenty-five feet in length and more than thirty millimeters in width. Any person who acquires unexposed photographic film not subject to tax under this paragraph and sells such unexposed film in form and dimensions subject to tax hereunder (or in connection with a sale cuts such film to form and dimensions subject to tax hereunder) shall for the purposes of this subsection be considered the manufacturer of the film so sold by him."

"(b) Floor stocks refunds on bulbs.—

"(1) With respect to any photo flash or other bulb upon which the tax imposed under section 3406 (a) (4) of the Internal Revenue Code has been paid, and which on the effective date specified in section 489 of this act is held by any person and intended for sale, or for use in the manufacture or production of any article intended for sale, there shall be credited or refunded to the manufacturer or producer of such bulb (without interest), subject to such regulations as may be prescribed by the Secretary, an amount equal to so much of the tax so paid as has been paid by such manufacturer or producer to such person as reimbursement for the elimination on such effective date of the tax on such bulb, if claim for such credit or refund is filed with the Secretary prior to the expiration of 3 months after such effective date. No credit or refund shall be allowable under this paragraph for any bulb held by any person for sale which was purchased by such person as a component part of any other article.

"(2) No person shall be entitled to credit or refund under paragraph (1) unless he has in his possession such evidence of the inventories with respect to which he has made the reimbursements described in paragraph (1) as the regulations under paragraph (1) shall prescribe.

"(3) All provisions of law, including penalties, applicable with respect to the tax imposed under section 3406 (a) (4) of the Internal Revenue Code shall, insofar as applicable and not inconsistent with this subsection, be applicable in respect of the credits and refunds provided for in this subsection to the same extent as if such credits or refunds constituted credits or refunds of such taxes."

And in lieu thereof to insert the following:

"Sec. 476. Photographic apparatus.

"Section 3406 (a) (4) is hereby amended to read as follows:

"(4) Photographic apparatus: Cameras (except cameras weighing more than 4 pounds exclusive of lens and accessories) and lenses; photographic apparatus and equipment; any apparatus or equipment designed especially for use in the taking of photographs or motion pictures or in developing, printing, or enlarging photographs or motion pictures; unexposed photographic films (including motion-picture films but not including X-ray film); unexposed photographic plates; and unexposed sensitized paper; 15 percent. The amount of tax payable on a sale of unexposed 35 millimeter color positive print motion-picture film shall be computed, in lieu of on the price for which so sold, on the price for which an equivalent quantity of unexposed 35 millimeter black and white positive print motion-picture film is sold, in the ordinary course of trade, by manufacturers or producers thereof, as determined by the Secretary."

The next amendment was, on page 273, line 17, to change the section number from "486" to "477"; in the same line, after the word "Mechanical," to strike out "Pencils and Fountain and Ball-Point Pens" and insert "Pencils, Fountain and Ball-Point Pens, and Mechanical Lighters for Cigarettes, Cigars, and Pipes"; on page 274, line 1, after the word "Mechanical," to strike out "Pencils and Fountain and Ball-Point Pens" and insert "Pencils, Fountain and Ball-Point Pens, and Mechanical Lighters for Cigarettes, Cigars, and Pipes"; in line 7, after the word "to", to strike out "20" and insert "10"; in line 9, after the word "point", to strike out "pens" and insert "pens; mechanical lighters for cigarettes, cigars, and pipes", and after line 13, to insert "If any article, on the sale of which tax has been paid under this section, is further manufactured or processed resulting in an article taxable under

section 2400, the person who sells such article at retail shall, in the computation of the retailers' excise tax due on such sale, be entitled to a credit or refund in an amount equal to the tax paid under this section."

The next amendment was, on page 274, line 20, to change the section number from "487" to "478", and in line 23, after the numerals "3441", to strike out "(d), 3444 (b), and" and insert "(d) and."

The next amendment was, on page 275, line 18, to change the section number from "488" to "479"; in line 21, after the word "cents", to insert "and by adding at the end thereof the following new sentence: 'On and after January 1, 1954, the tax imposed by this section shall be 1½ cents a gallon in lieu of 2 cents a gallon.'"; on page 276, line 1, after the word "Tax", to insert "And Refund"; in line 3, after the word "new", to strike out "subsection" and insert "subsections"; in line 6, after the word "section", to strike out "488" and insert "479"; in line 11, after the word "by", to strike out "the manufacturer, producer, or importer thereof," and insert "a producer or importer of gasoline.", and after line 12, to insert:

"(g) Floor stock refund.—

"(1) In general: With respect to any gasoline taxable under this section, upon which tax (including floor stocks tax) at the applicable rate has been paid, and which, on January 1, 1954, is held and intended for sale by any person, there shall be credited or refunded (without interest) to the producer or importer who paid the tax, subject to such regulations as may be prescribed by the Secretary, an amount equal to so much of the difference between the tax so paid and the amount of tax made applicable to such gasoline on and after January 1, 1954, as has been paid by such producer or importer to such person as reimbursement for the tax reduction on such gasoline, if claim for such credit or refund is filed with the Secretary prior to April 1, 1954. No credit or refund shall be allowable under this subsection with respect to gasoline in retail stocks held at the place where intended to be sold at retail, nor with respect to gasoline held for sale by a producer or importer of gasoline.

"(2) Limitation on eligibility for credit or refund: No producer or importer shall be entitled to a credit or refund under paragraph (1) unless he has in his possession satisfactory evidence of the inventories with respect to which he has made the reimbursements described in such paragraph, and establishes to the satisfaction of the Secretary with respect to the quantity of gasoline as to which credit or refund is claimed under such paragraph, that on or after January 1, 1954, such quantity of gasoline was sold to the ultimate consumer at a price which reflected the amount of the tax reduction.

"(3) Penalty and administrative procedures: All provisions of law, including penalties, applicable in respect of the tax imposed under this section shall, insofar as applicable and not inconsistent with this subsection, be applicable in respect of the credits and refunds provided for in this subsection to the same extent as if such credits or refunds constituted credits or refunds of such taxes."

The next amendment was, on page 278, line 4, to change the section number from "489" to "480", and in the same line, after the word "Part", to strike out "VIII" and insert "VII."

The next amendment was, on page 278, line 9, in the subhead, after the word "Part", to strike out "IX" and insert "VIII."

The next amendment was, on page 278, line 10, to change the section number from "491" to "481"; in line 12, after the word "Tax", to strike out "The first sentence of section 3465 (a) (1) (B) is hereby amended to read as follows: 'On the amount paid within the United States for each telegraph,

cable, or radio dispatch or message a tax equal to 20 percent of the amount so paid, except that in the case of each international telegraph, cable, or radio dispatch or message the rate shall be 10 percent.'"; in line 19, before the word "The", to strike out "(b) Clerical Amendment."; on page 279, line 1, to reletter the subsection from "(c)" to "(b)"; in line 2, after the word "subsection", to strike out "(d)" and insert "(c)"; in line 4, after the word "subsection", to strike out "(c)" and insert "(d)"; in line 6, to reletter the subsection from "(d)" to "(c)"; and in line 19, to reletter the subsection from "(c)" to "(d)."

The next amendment was, at the top of page 280, to insert a new section, as follows: "Sec. 482. Exemption of certain overseas telephone calls from the tax on telephone facilities.

"(a) Telephone calls from members of Armed Forces in combat zones: Section 3466 is amended by redesignating subsection (c) thereof as subsection "(d)" and by inserting after subsection (b) the following new subsection:

"(c) No tax shall be imposed under section 3465 (a) (1) (A) upon any payment received for any telephone or radio-telephone message which originates within a combat zone, as defined in section 22 (b) (13), from a member of the Armed Forces of the United States performing service in such combat zone, as determined under such section, provided a certificate, setting forth such facts as the Secretary may by regulations prescribe, is furnished to the person receiving such payment."

"(b) Effective date: The amendment made by subsection (a) shall apply to amounts paid on or after the first day of the first month which begins more than 10 days after the date of enactment of this act for telephone or radio-telephone messages made on or after such date."

The next amendment was, on page 280, line 22, to change the section number from "492" to "483."

The next amendment was, on page 281, after line 10, to strike out:

"Sec. 493. Transportation of oil by water.

"(a) Imposition of tax: Chapter 39 (relating to transportation and communications taxes) is hereby amended by adding at the end thereof the following new subchapter:

"SUBCHAPTER F—TRANSPORTATION OF OIL BY WATER

"SEC. 3476. Transportation of oil by water.

"(a) Tax: There shall be imposed upon all transportation (other than transportation taxable under section 3475) of crude petroleum and liquid products thereof by water, from one point in the United States to another, a tax equal to 3 percent of the fair charge for such transportation.

"(b) Fair charge defined: For the purposes of this section, the fair charge for transportation shall be computed on—

"(1) the basis of the charge for such transportation made by persons performing like transportation for hire, as determined by the Secretary, or

"(2) if no charge exists, then on the basis of a reasonable charge for such transportation, as determined by the Secretary.

"(c) Exemption from tax: The tax imposed by this section shall not apply to—

"(1) transportation within the premises of a producing property, refinery, bulk plant, terminal, or gasoline plant;

"(2) transportation in a vessel of a product to be used (without unloading) as fuel supplies, ship's stores, sea stores, or legitimate equipment, on such vessel;

"(3) transportation by and for the exclusive use of the Government of the United States, or by and for the exclusive use of

any State, Territory, or political subdivision thereof, or the District of Columbia; or

"(4) products transported by an individual for his personal use and not for business purposes.

"(d) Return and payment of tax: The tax imposed by this section shall be paid by the person furnishing the transportation subject to the tax. Every person liable for the tax imposed under this section shall make returns and pay such taxes to the collector for the district in which is located his principal place of business or, if he has no principal place of business in the United States, then to the collector at Baltimore, Md. Such returns shall contain such information and be made at such times and in such manner as the Secretary by regulations may prescribe."

"(b) Technical amendment: Section 3475 (a) (relating to tax on transportation of property) is hereby amended by adding at the end thereof the following new sentence: 'In the case of transportation of crude petroleum and liquid products thereof by water from one point in the United States to another, if (other than in the case of an arm's length transaction) the amount paid for such transportation is less than the fair charge therefor (as defined in sec. 3476 (b)) the tax imposed by section 3476, and not the tax imposed by this section, shall apply with respect to such transportation.'

"(c) Effective date: The amendments made by this section shall be applicable only with respect to transportation which begins on or after the first day of the first month which begins more than 10 days after the date of the enactment of this act."

The next amendment was, on page 283, after line 21, to insert a new section, as follows:

"SEC. 484. Tax on transportation of persons.

"(a) Exemption of certain foreign travel: Section 3469 (a) of the Internal Revenue Code (relating to tax on transportation of persons) is hereby amended by striking out the third sentence and inserting in lieu of such sentence the following: 'In the case of transportation, by water on a vessel which makes one or more intermediate stops at ports within the United States, Canada, or Mexico on a voyage which begins or ends in the United States and ends or begins outside the northern portion of the Western Hemisphere, no part of such transportation shall be considered for the purposes of the preceding sentence to be from any port within the United States, Canada, or Mexico to any other such port if the vessel in stopping at any such intermediate port is not authorized both to discharge and to take on passengers. A port or station within Newfoundland shall not, for the purposes of the preceding two sentences, be considered as a port or station within Canada.'

"(b) Effective date: The amendment made by subsection (a) shall apply to amounts paid on or after the first day of the first month which begins more than 10 days after the date of the enactment of this act for transportation on or after such first day."

The next amendment was, on page 284, after line 19, to insert a new section, as follows:

"SEC. 485. Transportation of material excavated in the course of construction work.

"(a) Amendment of section 3475: Section 3475 (relating to tax on transportation of property) is hereby amended by adding at the end thereof the following: 'The tax imposed by this section shall not apply to the transportation of earth, rock, or other material excavated within the boundaries of, and in the course of, a construction project and transported to any place within, or adjacent to, the boundaries of such project.'

"(b) Effective date: The amendment made by subsection (a) shall apply to amounts paid on or after the first day of the first month which begins more than 10 days after the date of enactment of this act for transportation on or after such first day."

The next amendment was, on page 285, line 10, to change the section number from "494" to "486."

The next amendment was, on page 286, after line 22, to insert a new section, as follows:

"SEC. 487. Refunds on articles from foreign trade zones.

"(a) Imported articles: With respect to any article specified in section 2000 (c) (2), 2800 (a), 3030 (a), or 3150 (a) of the Internal Revenue Code on which internal revenue tax at the applicable rate prescribed in such section has been determined pursuant to section 3 of the act of June 18, 1934, as amended (U. S. C., title 19, sec. 81c), prior to January 1, 1954, and which on or after such date is brought from a foreign trade zone into customs territory of the United States and the tax so determined thereon paid, there shall be credited or refunded (without interest) to the taxpayer, subject to such regulations as may be prescribed by the Secretary, an amount equal to the difference between the tax so paid and the amount of tax made applicable to such articles on and after January 1, 1954, if claim for such credit or refund is filed with the Secretary within 30 days after payment of the tax.

"(b) Previously tax-paid articles: With respect to any article specified in section 2000 (c) (2), 2800 (a), 3030 (a), or 3150 (a) of the Internal Revenue Code, upon which internal revenue tax (including floor stocks tax) at the applicable rate prescribed in such section has been paid, and which was taken into a foreign trade zone from the customs territory of the United States and placed under the supervision of the collector of customs, pursuant to the second proviso of section 3 of the act of June 18, 1934, as amended (U. S. C., title 19, sec. 81c), prior to January 1, 1954, and which on or after such date is (without loss of identity) returned from a foreign trade zone to customs territory of the United States, there shall be credited or refunded (without interest) to the person so returning such article, subject to such regulations as may be prescribed by the Secretary, an amount equal to the difference between the tax so paid and the amount of tax made applicable to such articles on and after January 1, 1954, if claim for such credit or refund is filed with the Secretary within 30 days after the return of the article to customs territory."

The next amendment was, on page 288, after line 9, to insert:

"TITLE V—EXCESS-PROFITS TAX

"SEC. 501. Maximum tax for new corporations.

"Section 430 (relating to imposition of tax) is hereby amended as follows:

"(1) By adding at the end of subsection (a) thereof, as amended by section 121 of this act, the following:

"(3) In the case of a corporation for which an amount is determined for the taxable year under subsection (c), the amount determined under such subsection."

"(2) By redesignating subsection (e) as subsection (f); and

"(3) By inserting after subsection (d) the following new subsection:

"(e) New corporations.—

"(1) Alternative amount: In the case of a taxpayer which commenced business after July 1, 1945, the amount referred to in subsection (a) (3) shall be—

"(A) If the taxable year is the first or second taxable year of the taxpayer, an amount equal to 5 percent of the excess

profits net income for the taxable year, except that if the excess profits net income exceeds \$400,000, the amount shall be the sum of \$20,000 plus the amount determined under subparagraph (E) of this paragraph.

"(B) If the taxable year is the third taxable year of the taxpayer, an amount equal to 8 percent of the excess-profits net income for the taxable year, except that if the excess-profits net income exceeds \$400,000, the amount shall be the sum of \$32,000 plus the amount determined under subparagraph (E) of this paragraph.

"(C) If the taxable year is the fourth taxable year of the taxpayer, an amount equal to 11 percent of the excess-profits net income for the taxable year, except that if the excess-profits net income exceeds \$400,000, the amount shall be the sum of \$44,000 plus the amount determined under subparagraph (E) of this paragraph.

"(D) If the taxable year is the fifth taxable year of the taxpayer, an amount equal to 14 percent of the excess profits net income for the taxable year, except that if the excess profits net income exceeds \$400,000, the amount shall be the sum of \$56,000 plus the amount determined under subparagraph (E) of this paragraph.

"(E) The amount determined under this subparagraph shall be—

"(i) if the taxable year ends before April 1, 1951, an amount equal to 15 percent of the excess of the excess profits net income for the taxable year over \$400,000.

"(ii) if the taxable year begins on January 1, 1951, and ends on December 31, 1951, an amount equal to 16½ percent of the excess of the excess profits net income for the taxable year over \$400,000.

"(iii) if the taxable year (other than a taxable year described in clause (ii)) ends after March 31, 1951, an amount equal to 17 percent of the excess profits net income for the taxable year over \$400,000.

"(2) First four taxable years: For the purpose of this subsection—

"(A) The taxable year in which the taxpayer commenced business and the first, second, third, and fourth succeeding taxable years shall be considered its first, second, third, fourth, and, fifth taxable years, respectively.

"(B) The taxpayer shall be considered to have been in existence and to have had taxable years for any period during which it or any corporation described in any clause of this subparagraph was in existence, and the taxpayer shall be considered to have commenced business on the earliest date on which it or any such corporation commenced business:

"(1) Any corporation which is a party with the taxpayer to a transaction described in section 445 (g) (2) (whether or not such transaction is described in sec. 461 (a)), determined as if the date "January 1, 1946" were substituted for the date "December 1, 1950" in section 445 (g).

"(ii) Any corporation if a group of not more than four persons who control the taxpayer at any time during the taxable year also control such corporation during the taxable year, or controlled such corporation at any time during the period beginning 12 months preceding their acquisition of control of the taxpayer; but only if at any time during the period beginning 12 months preceding the acquisition of control of the taxpayer and ending with the close of the taxable year (and while such persons controlled such corporation) was engaged in a trade or business substantially similar to the trade or business of the taxpayer during the taxable year. For the purpose of this clause, the term "control" means the ownership of more than 50 percent of the total combined voting power of all classes of stock entitled to vote, or more than 50 percent of the total value of shares of all classes of

stock. A person shall not be deemed a member of the group referred to in this clause unless he owns stock in both the corporation and the taxpayer. For the purpose of this clause, the ownership of stock shall be determined in accordance with the provisions of section 503, except that constructive ownership under section 503 (a) (2) shall be determined only with respect to the individual's spouse and minor children.

"(iii) In case the taxpayer is a purchasing corporation under the provisions of part IV, the selling corporation (as defined in such part) whose properties have been acquired in a part IV transaction.

"(iv) Any corporation which, under regulations prescribed by the Secretary, is determined by one or more additional applications of clauses (i) to (iii) to stand indirectly in the same relation to the taxpayer as though such corporation were described in any such clause.

"(3) Limitation: The provisions of paragraph (1) of this subsection shall not apply to a taxpayer which derives more than 50 percent of its gross income for the taxable year from contracts and subcontracts to which the provisions of title I of the Renegotiation Act of 1951 (or the provisions of any prior renegotiation act) are applicable."

The next amendment was, on page 293, after line 18 to insert a new section, as follows:

"SEC. 502. Payments from foreign sources for technical assistance, etc.

"(a) Amendment of section 433 (a) (1): Section 433 (a) (1) (relating to excess profits net income for taxable years ending after June 30, 1950) is hereby amended by adding at the end thereof the following new subparagraph:

"(R) Payments from Foreign Sources for technical assistance, etc.: In the case of a domestic corporation which renders to a related foreign corporation technical assistance, engineering services, scientific assistance, or similar services (such services or assistance being related to the production or improvement of products of the type manufactured by such domestic corporation), there shall be excluded the remuneration for such services or assistance if such remuneration constitutes income derived from sources without the United States. Any deductions in connection with or properly allocable to the rendering of such services or assistance shall not be allowed. For the purpose of this subparagraph, a foreign corporation shall be considered to be a "related foreign corporation" if the domestic corporation owns 10 percent or more of the outstanding stock of such foreign corporation."

"(b) Amendment of section 433 (b): Section 433 (b) (relating to taxable years in base period) is hereby amended by adding at the end thereof the following new paragraph:

"(16) Payments from foreign sources for technical assistance, etc.: In the case of a domestic corporation which renders to a related foreign corporation technical assistance, engineering services, scientific assistance, or similar services (such services or assistance being related to the production or improvement of products of the type manufactured by such domestic corporation), there shall be excluded the remuneration for such services or assistance if such remuneration constitutes income derived from sources without the United States. Any deductions in connection with or properly allocable to the rendering of such services or assistance shall not be allowed. For the purpose of this paragraph, a foreign corporation shall be considered to be a "related foreign corporation" if the domestic corporation owns 10 percent or more of the outstanding stock of such foreign corporation."

The next amendment was, on page 295, after line 13, to insert a new section, as follows:

"SEC. 503. Average base period net income in case of certain fiscal year taxpayers.

"Section 435 (d) (relating to the general average method for the computation of average base period net income) is hereby amended by adding at the end thereof the following: 'For the purpose of the computations under this subsection in the case of a taxpayer whose first taxable year under this subchapter is a taxable year which either began before January 1, 1950, or was preceded by a taxable year beginning before January 1, 1950, and ending after March 31, 1950, there shall be substituted for the base period of the taxpayer the period of 48 consecutive months ending March 31, 1950, if such substitution produces a lesser tax under this subchapter for the taxable year for which the tax is being computed.'"

The next amendment was, on page 296, after line 2, to insert a new section, as follows:

"SEC. 504. Average base period net income—alternative based on growth in case of new corporations.

"(a) General rule: Section 435 (e) (1) (relating to the alternative based on growth) is hereby amended by striking out the phrase 'the beginning of its base period' and inserting in lieu thereof the following: 'the end of its base period.'"

"(b) Amendment of part II: Section 462 (c) (relating to the use by an acquiring corporation in a part II transaction of an alternative average base period net income based on growth) is hereby amended as follows:

"(1) By amending paragraph (1) thereof to read as follows:

"(1) In the case of a transaction described in section 461 (a), other than a transaction described in section 461 (a) (1) (E)—

"(A) The acquiring corporation shall not be denied the right to determine whether it is eligible for the benefits of section 435 (e) without reference to the recomputation of its excess profits net income provided for in section 462 (b) where the transaction occurred on or after July 1, 1950, but it shall be denied such right where the transaction occurred prior to July 1, 1950.

"(B) Where, immediately prior to the date of the transaction, the acquiring corporation and all the component corporations (other than a corporation created incident to such transaction) met the requirements of section 435 (e) (1) (A) (i), and in case the transaction occurred on or after July 1, 1950, had commenced business prior to the beginning of its base period (determined without reference to section 461 (d)), the acquiring corporation shall be entitled to compute its average base period net income under section 435 (e) with reference to the recomputation of its excess profits net income provided for in section 462 (b) if the tests of section 435 (e) are satisfied. For that purpose, the acquiring corporation shall combine with its total payroll and its total gross receipts for that portion of its base period which preceded such transaction the total payroll and total gross receipts of such component corporations for that portion of such period and it shall combine with its net sales for that portion of the period prior to January 1, 1951, which preceded such transaction the net sales of such component corporations for that portion of such period. The allocation of payroll and gross receipts amounts of a component corporation to any such portion of such period shall be made in accordance with the rules provided in section 435 (e) (4) and (5). For purposes of qualifying under section 435 (e) (1) (A) (i) (relating to total assets of the taxpayer), such acquiring corporation shall combine its total assets on the date specified in section

435 (e) (1) (A) (i) with the total assets of each component corporation on such date. The Secretary shall prescribe by regulations such rules as may be necessary to insure that such combined total gross receipts do not reflect a duplication for purposes of this section.

"(C) Where, immediately prior to the date of the transaction, either the acquiring corporation or one or more component corporations (other than a corporation created incident to such transaction) did not meet the requirements of section 435 (e) (1) (A) (i), or, in case the transaction occurred on or after July 1, 1950, had not commenced business prior to the beginning of its base period (determined without reference to section 461 (d)), the acquiring corporation shall not be entitled to compute its average base period net income under section 435 (e) with reference to the recomputation of its excess profits net income provided for in section 462 (b). In any such case, where the transaction occurred on or after July 1, 1950, the monthly excess profits net income of the corporation entitled to the benefits of section 435 (e) for any month of the acquiring corporation's base period shall be, for purposes of the recomputation provided for in section 462 (b), one-twelfth of the average base period net income to which such corporation was entitled under section 435 (e)."

"(2) By striking from the second sentence of paragraph (2) thereof the words: 'had commenced business prior to the beginning of its base period (determined without reference to section 461 (d)) and.'"

"(3) By striking from paragraph (3) thereof the words 'which had commenced business prior to the beginning of its base period' and by inserting in lieu thereof the following: 'which had commenced business prior to the end of its base period.'"

The next amendment was, on page 299, after line 20, to insert a new section, as follows:

"SEC. 505. Average base period net income—Alternative based on growth.

"Section 435 (e) (2) (G) (relating to the alternative based on growth) is hereby amended by striking out the word 'only.'"

The next amendment was, at the top of page 300, to insert a new section, as follows:

"SEC. 506. Adjustments for changes in inadmissible assets in case of banks.

"(a) Amendment of section 435 (g): Section 435 (g) (relating to net capital addition or reduction) is hereby amended by redesignating paragraph (8) as paragraph (11) and by adding after paragraph (7) the following new paragraph:

"(8) Adjustments for changes in inadmissible assets in case of banks: In the case of a bank (as defined in sec. 104)—

"(A) The amount of the adjustment under paragraph (1) for an increase in inadmissible assets shall not exceed an amount which bears the same ratio to the net capital addition computed without regard to such adjustment as the increase in inadmissible assets for the taxable year, determined under paragraph (5), bears to the increase in total assets for the taxable year.

"(B) The amount of the adjustment under paragraph (2) for a decrease in inadmissible assets shall not exceed an amount which bears the same ratio to the net capital reduction computed without regard to such adjustment as the decrease in inadmissible assets for the taxable year, determined under paragraph (5), bears to the decrease in total assets for the taxable year.

For the purpose of this paragraph, the increase or decrease in total assets for the taxable year shall be computed in the same manner as the increase or decrease in inadmissible assets for the taxable year is computed under paragraph (5), except that such computations shall be made with respect to

all assets, whether admissible or inadmissible assets as defined in section 440."

"(b) Amendment of section 438: Section 438 (relating to new capital credit changes) is hereby amended by adding after subsection (f) the following new subsection:

"(g) Adjustments for inadmissible assets in case of banks: In the case of a bank (as defined in section 104) the amount of the adjustment for an increase in inadmissible assets under subsection (b) shall not exceed an amount which bears the same ratio to the net new capital addition computed without regard to such adjustment as the increase in inadmissible assets for the taxable year, determined under section 435 (g) (5), bears to the amount of the increase in total assets (which increase in total assets shall be determined in the manner provided in section 435 (g) (8))."

"(c) Amendment of section 435 (f): Section 435 (f) (relating to capital additions in base period) is hereby amended as follows:

"(1) By inserting immediately after the word 'reduced' in paragraph (1) thereof, the following: '(but not below zero).'"

"(2) By adding at the end of paragraph (1) thereof the following new sentence:

"For special rule in the case of banks, see paragraph (6)."

"(3) By renumbering paragraph (6) as paragraph (7), and by adding immediately after paragraph (5) the following new paragraph:

"(6) Yearly base period capital of banks: In the case of a bank (as defined in section 104), the yearly base period capital for any taxable year shall be determined as follows:

"(A) A tentative yearly base period capital shall be computed under paragraph (1) without regard to paragraph (1) (A)."

"(B) The tentative yearly base period capital so determined shall be reduced by the amount determined under section 440 (b) (relating to inadmissible assets). For the purpose of this subparagraph, the computation under section 440 (b) shall include only the daily amounts (described in such section) for the first day of such taxable year."

The next amendment was, on page 303, after line 2, to insert a new section, as follows:

"Sec. 507. Decrease in inadmissible assets.

"Section 435 (g) (relating to net capital addition or reduction) is hereby amended as follows:

"(a) By adding at the end of paragraph (1) thereof the following:

"For further adjustment with respect to the amount determined under the preceding provisions of this paragraph, see paragraph (9)."

"(b) By adding immediately after paragraph (8), as added by section 506 of this act, the following new paragraphs:

"(9) Decrease in inadmissible assets: The excess of the amount computed under paragraph (2) (A) or (B), whichever is applicable to the taxpayer (whether or not any amount is determined under the first sentence of paragraph (2)), over the amount computed under the first sentence of paragraph (2) shall be considered the net capital addition for the taxable year or shall be added to the net capital addition otherwise determined under paragraph (1), as the case may be. The amount of the excess so determined shall be subject to the exceptions and limitations provided in paragraph (10)."

"(10) Exceptions and limitations for the purpose of paragraph (9): For the purpose of paragraph (9)—

"(A) The adjustment to the decrease in inadmissible assets required under subparagraph (B) of paragraph (2) shall not be greater than 25 percent of the excess of the net capital reduction computed under the first sentence of paragraph (2) (and computed without regard to the percentage limitations in paragraph (4) (C) and (E)) over

the net capital reduction computed under such sentence without regard to paragraph (4) (C) and (E)."

"(B) The amount determined under paragraph (9) shall not be greater than the excess of the increase in operating assets for the taxable year over the net capital addition (determined without regard to paragraph (9) and determined without regard to the limitation to 75 percent provided in paragraph (3) (C) and paragraph (4) (C) and (E)). For the purpose of the preceding sentence, the increase in operating assets for the taxable year shall be determined in the same manner as the increase in inadmissible assets for the taxable year is determined under paragraph (5). For the purpose of such determination, the term "operating assets" means—

"(i) property used in the taxpayer's trade or business within the meaning of section 117 (j) (1), and

"(ii) stock in trade or other property of a kind which would properly be includible in the inventory of the taxpayer if owned at the close of the taxable year, and property held by the taxpayer primarily for sale to customers in the ordinary course of the taxpayer's trade or business,

except any such assets which constitute inadmissible assets, stock, securities, or intangible property (such intangible property not being limited to the property described in section 441 (1))."

"(C) The provisions of paragraph (9) shall not apply in any case in which the Secretary determines that the increase in operating assets is a result, directly or indirectly, of an increase in indebtedness of the taxpayer (other than indebtedness which constitutes borrowed capital)."

The next amendment was, at the top of page 306, to insert a new section, as follows:

"Sec. 508. Election with respect to certain inadmissible assets.

"(a) Amendment of section 440: Section 440 (relating to admissible and inadmissible assets) is hereby amended by adding at the end thereof the following new subsection:

"(c) Treatment of Government obligations as admissible assets: If the taxpayer elects for any taxable year, in accordance with regulations prescribed by the Secretary, to increase its excess profits net income by an amount equal to the amount by which the interest received or accrued during the taxable year on Government obligations exceeds the sum of—

"(1) the amount of interest paid or accrued during such year which is not allowed as a deduction under section 23 (b), and

"(2) the amount of the adjustments required for the taxable year under section 22 (o) (relating to adjustment for certain bond premiums), but not in excess of the amount of interest received or accrued during the taxable year on Government obligations to which such section is applicable,

then for the taxable year for which the election is made the term "admissible assets" shall include Government obligations, and the term "inadmissible assets" shall not include Government obligations. For the purpose of applying section 435 to the taxable year for which the election is made, Government obligations shall not be considered "inadmissible assets" in determining original inadmissible assets or yearly base period capital. As used in this subsection the term "Government obligations" means obligations described in section 22 (b) (4) the interest on which is wholly exempt from taxation under this chapter; but such term does not include any such obligation which is a capital asset. For the purpose of determining the excess profits credit for a taxable year for which the election is made, the excess profits net income under section 433 (b) for any taxable year shall include the amount by which the interest received or

accrued during such taxable year on Government obligations exceeds the amount of interest paid or accrued during such year which is not allowed as a deduction under section 23 (b) and, if the taxable year ends after June 30, 1950, the amount with respect to such year described in paragraph (2)."

"(b) Amendment of section 433 (a) (1): Section 433 (a) (1) (relating to adjustments in excess profits net income for the taxable year) is hereby amended by adding the following new subparagraph at the end thereof:

"(S) Interest on certain Government obligations.—For adjustment in the case of a taxpayer making an election provided in section 440 (c), relating to dealers in certain Government obligations, see section 440 (c)."

"(c) Amendment of section 433 (b): Section 433 (b) (relating to adjustments in excess profits net income for taxable years in base period) is hereby amended by adding at the end thereof the following new paragraph:

"(17) Interest on certain Government obligations: For adjustment in the case of a taxpayer making an election provided in section 440 (c), relating to dealers in certain Government obligations, see section 440 (c)."

On page 308, after line 13, to insert a new section, as follows:

"Sec. 509. Alternative average base period net income.

"(a) Amendment of section 442: Section 442 (relating to abnormalities during the base period) is hereby amended as follows:

"(1) By inserting at the end of subsection (a) thereof the following:

"If such taxpayer is also entitled to the benefits of subsection (h), the taxpayer's average base period net income determined under this section shall be the amount computed under subsection (c) or (d), whichever is applicable to the taxpayer, or the amount computed under subsection (h), whichever results in the lesser tax under this subchapter for the taxable year. In the case of any other taxpayer entitled to the benefits of subsection (h), the taxpayer's average base period net income determined under this section shall be the amount computed under subsection (h)."

"(2) By striking out 'determined under this section' in subsection (c) and (d) thereof each place it occurs and inserting in lieu thereof the following: 'computed under this subsection.'"

"(3) By inserting after 'subsection (c) (2)' in subsection (e) (1) thereof the following: 'and subsection (h).'"

"(4) By redesignating subsections (h) and (i) thereof as (i) and (j), respectively, and by inserting after subsection (g) thereof the following new subsection:

"(h) Alternative average base period net income.—

"(1) General rule: A taxpayer which commenced business on or before the first day of its base period shall be entitled to the benefits of this subsection if the aggregate of the excess profits net income for each of the 12 months selected under subparagraph (B) of this paragraph is less than 35 percent of one-half of the average of the aggregate of the excess profits net income for each of the 24 months remaining under such subparagraph. The average base period net income computed under this subsection shall be computed as follows:

"(A) By determining under subsection (a) the period subject to adjustment under this section.

"(B) By selecting from such period whichever of the following 12 months result in the higher remaining aggregate excess profits net income or the lower remaining aggregate deficit in excess profits net income—

"(1) the 12 consecutive months the elimination of which produces the highest remaining aggregate excess profits net income or the lowest remaining aggregate deficit in excess profits net income, or

"(ii) the 12 months which remain after retaining the 24 consecutive months which produce the highest remaining aggregate excess profits net income or the lowest remaining aggregate deficit in excess profits net income.

"(C) By computing for each month in the 12-month period selected under subparagraph (B) a substitute excess profits net income computed under subsection (e).

"(D) By computing the sum of—

"(i) the aggregate of the substitute excess profits net income, as determined under subparagraph (C), for each month in the selected 12-month period, but the amount computed under this clause shall not exceed one-half of the average of the aggregate excess profits net income for each month in the 24-month period remaining under subparagraph (B), and

"(ii) the aggregate of the excess profits net income for each of the 24 months remaining under subparagraph (B), computed in the manner provided by the second sentence of section 435 (d) (1).

"(E) By dividing by three the amount ascertained under subparagraph (D).

"(2) Special rule: Except as otherwise provided in paragraph (1) (D) (ii), the excess profits net income for any month referred to in paragraph (1) shall be determined in the manner provided in section 435 (d) (1) without regard, however, to that part of such section which provides that in no event shall the excess profits net income of any corporation for any month be less than zero."

"(b) Technical amendments:

"(1) Section 435 (f) (3) (relating to capital addition in the base period) is hereby amended by inserting immediately after the words 'under section 442 (c) (1)', wherever appearing therein, the following: 'or under section 442 (h).'

"(2) Section 461 (relating to definitions for purposes of part II) is hereby amended by inserting at the end thereof the following new subsection:

"(g) Application of section 442 (h): For the purpose of this part, the reference to section 442 (c) in any section in this part shall be deemed a reference to section 442 (c) or (h)."

The next amendment was, on page 312, after line 10, to insert a new section, as follows:

"SEC. 510. Definition of total assets for purposes of sections 442-446.

"Effective with respect to taxable years ending after the date of enactment of this act, the first sentence of section 442 (f) (relating to definition of total assets) is hereby amended to read as follows: 'For the purposes of this section, the taxpayer's total assets for any day shall be determined as of the end of such day and shall be an amount equal to the excess of—

"(1) the sum of the cash and the property (other than cash, inadmissible assets, and loans to members of a controlled group as defined in section 435 (f) (4)) held by the taxpayer in good faith for the purposes of the business, over

"(2) the amount of any indebtedness (other than borrowed capital as defined in section 439 (b) (1)) to a member of a controlled group (as defined in section 435 (g) (6)) which includes the taxpayer."

The next amendment was, on page 313, after line 3, to insert a new section, as follows:

"SEC. 511. Average base period net income—
Change in products or services.

"Section 443 (f) (relating to change in products or services) is hereby amended to read as follows:

"(f) Rules for application of section.—

"(1) The benefits of this section shall not be allowed unless the taxpayer makes application therefor in accordance with section 447 (e).

"(2) If after the end of the base period of the taxpayer there was a substantial change in the products produced by the taxpayer, such change shall, for the purpose of subsection (a) (1), be considered to have occurred on the last day of its base period if the taxpayer prior to July 1, 1950, commenced the construction of the facilities for the production of such new product, and if such construction and the production of such new product is in furtherance of a course of action to which the taxpayer (or a corporation with which the taxpayer has the privilege under section 141 of filing a consolidated return for its first taxable year under this subchapter) was committed prior to the close of the base period by contract with another person, which contract granted a license, franchise, or similar right essential for the production of such new product."

The next amendment was, on page 314, after line 2, to insert a new section, as follows:

"SEC. 512. Average base period net income—
new corporation.

"Section 445 (c) (relating to total assets for first 3 years of new corporation) is hereby amended by adding at the end thereof the following new sentence: 'For the purpose of this subsection, the net capital addition or reduction shall be computed without regard to the limitation to 75 percent provided in section 435 (g) (3) (C) and section 435 (g) (4) (C) and (E).'

The next amendment was, on page 314, after line 11, to insert a new section, as follows:

"SEC. 513. Excess profits credit—regulated public utilities.

"Section 448 (c) (3) (relating to regulated public utilities) is hereby amended to read as follows:

"(3) 6 percent in the case of a corporation engaged as a common carrier (A) in the furnishing or sale of transportation by railroad, if subject to the jurisdiction of the Interstate Commerce Commission, or (B) in the furnishing or sale of transportation of oil or other petroleum products (including shale oil) by pipeline, if subject to the jurisdiction of the Interstate Commerce Commission or to the jurisdiction of a public service or public utility commission or other similar body of the District of Columbia or of any State."

The next amendment was, at the top of page 315, to insert a new section, as follows:

"SEC. 514. Consolidated returns of regulated public utilities.

"Section 448 (e) (relating to consolidated returns of regulated public utilities) is hereby amended by adding at the end thereof the following new sentence: 'For purposes of filing a consolidated return with its railroad lessee corporation, a railroad lessor corporation described in section 434 (d) shall be considered a corporation described in subsection (c) (3).'

The next amendment was, on page 315, after line 9, to insert a new section, as follows:

"SEC. 515. Nontaxable income from certain mining properties

"Section 453 (b) (relating to nontaxable income from exempt excess output) is hereby amended as follows:

"(a) By amending the first sentence of subsection (a) (13) thereof to read as follows: 'The term "unit net income" means the amount ascertained by dividing the net income (computed with the allowance for depletion) from the coal, ore, sulphur, potash, metallurgical grade limestone, chemical grade limestone, or timber recovered from the mineral property, or timber block, as the case may be, during the taxable year by the number of units of such mineral or timber recovered from such property in such year.'

"(b) By inserting immediately after the words 'coal mining property' in subsection (b) (2) thereof the following: ', or of a sulphur, potash, metallurgical grade limestone, or chemical grade limestone mineral property.'

"(c) By striking out so much of subsection (b) (4) as precedes the second sentence and inserting in lieu thereof the following:

"(4) Certain properties not in operation during normal period: For any taxable year, the nontaxable income from exempt excess output of a metal or coal mining property, of a sulphur, potash, metallurgical grade limestone, or chemical grade limestone mineral property, of a timber block, or of a natural gas property, which was not in operation during the normal period, shall be an amount equal to one-third of the net income for such taxable year (computed with the allowance for depletion) from such property or timber block, as the case may be."

The next amendment was, on page 316, after line 16, to insert a new section, as follows:

"SEC. 516. Transition from war production and increase in peacetime capacity.

"(a) In general: Part I of subchapter D of chapter 1 is hereby amended by adding at the end thereof a new section to read as follows:

"SEC. 459. Miscellaneous provisions.

"(a) Average base period net income—Transition from war production and increase in peacetime capacity: In the case of a taxpayer which commenced business before January 1, 1940, and since such date has engaged primarily in manufacturing, the taxpayer's average base period net income determined under this subsection shall be the amount computed under section 435 (e) (2) (G) (i) and (ii) if—

"(1) The adjusted basis for determining gain of the taxpayer's total facilities (as defined in section 444 (d)) as of the first day of its base period (when added to the total facilities for such day of all corporations with which the taxpayer has the privilege under section 141 of filing a consolidated return for its first taxable year under this subchapter) did not exceed \$10,000,000;

"(2) The basis (unadjusted) for determining gain of the taxpayer's total facilities (as defined in sec. 444 (d)) on the last day of its base period was 250 percent or more of the basis (unadjusted) for determining gain of its total facilities on the first day of its base period;

"(3) The percentage of the taxpayer's aggregate gross income which was from contracts with the United States or related subcontracts or both was (A) at least 70 percent

for the period comprising all taxable years beginning after December 31, 1941, and ending before January 1, 1946, (B) less than 20 percent for the period comprising all taxable years ending after December 31, 1945, and before January 1, 1950, and (C) less than 20 percent for the period comprising all taxable years ending after December 31, 1949, and beginning before July 1, 1950; and

"(4) The monthly average of the excess profits net income of the taxpayer (computed under section 433 (b)) (A) for all taxable years ending with or within the last 24 months of its base period, and (B) for the last taxable year ending before the first day of its base period, are each 300 percent or more of such monthly average for all taxable years ending with or within the first 24 months of its base period."

"(b) Technical amendments: Section 435 (c) (relating to determination of average base period net income) is hereby amended as follows:

"(1) By inserting immediately after '445 or 446,' the following: 'or any subsection of section 459.'

"(2) By inserting immediately after 'or under such section' the following: 'or subsection.'

The next amendment was, on page 318, after line 19, to insert a new section, as follows:

"SEC. 517. Base period catastrophe.

"Section 459, as added by section 516 of this act, is hereby amended by adding after subsection (a) thereof the following new subsection:

"(b) Base period catastrophe: In the case of a taxpayer which was engaged throughout its base period primarily in manufacturing, if—

"(1) the taxpayer suffered during the last 36 months of its base period a catastrophe by fire, storm, explosion, or other casualty which destroyed or rendered inoperative a production facility constituting a complete plant or plants having in the hands of the taxpayer immediately prior to the catastrophe an adjusted basis for determining gains equal to 15 percent or more of the adjusted basis for determining gain of all the taxpayers' production facilities at such time;

"(2) as a result of such catastrophe the taxpayer's normal production or operation was substantially interrupted for a period of more than 12 consecutive months; and

"(3) the taxpayer, prior to the end of its base period, replaced such production facility with a production facility which at the end of its base period had in its hands an adjusted basis for determining gain not less than such adjusted basis immediately prior to the catastrophe of the production facility destroyed or rendered inoperative, the taxpayer's average base period net income determined under this subsection shall be an amount computed under section 435 (d) by substituting for the excess profits net income for each month in the taxable year in which the catastrophe occurred an amount equal to (A) the aggregate of the excess profits net income for each month (computed under section 435 (d) (1) in the base period preceding the taxable year in which the catastrophe occurred (B) divided by the number of such preceding base period months. The taxpayer's average base period net income determined under this subsection shall, for the purpose of section 435 (a) (1) (B), be considered an average base period net income determined under section 435 (d)."

The next amendment was, on page 320, after line 11, to insert a new section, as follows:

"SEC. 518. Consolidation of newspapers.

"Section 459, as added by sections 516 and 517 of this act, is hereby amended by adding

after subsection (b) thereof the following new subsection:

"(c) Consolidation of newspaper operations: In the case of a taxpayer engaged primarily in the newspaper-publishing business in its last taxable year ending before July 1, 1950, the taxpayer's average base period net income determined under this subsection shall be the amount computed under section 435 (e) (2) (but computed without regard to section 435 (e) (2) (G)) if—

"(1) After the close of the first half of the base period of the taxpayer and prior to July 1, 1950, the taxpayer consolidated its mechanical, circulation, advertising, and accounting operations in connection with its newspaper-publishing business with such operations of another corporation engaged in the newspaper-publishing business in the same area;

"(2) The taxpayer establishes to the satisfaction of the Secretary that, during the period beginning with the consolidation and ending with the close of the first taxable year beginning after the consolidation, such consolidation resulted in substantial reductions in the amounts which would otherwise have been paid or incurred as expenses in the conduct of the operations described in paragraph (1);

"(3) The total deductions of the taxpayer under section 23, computed without regard to section 23 (s) and (bb), for the first taxable year beginning after such consolidation were not in excess of 80 percent of the average of such deductions for the two taxable years of the taxpayer next preceding the taxable year in which such consolidation began; and

"(4) The excess profits net income of the taxpayer, computed as provided in section 433 (b), for the first taxable year of the taxpayer beginning after such consolidation was 125 percent or more of the amount determined under section 435 (d) (4).

This subsection shall not be applicable to any taxable year of the taxpayer unless the consolidation described in paragraph (1) was continued throughout such taxable year."

The next amendment was, on page 322, after line 3, to insert a new section, as follows:

"SEC. 519. Television broadcasting companies.

"Section 459, as added by sections 516 to 519 of this act, is hereby amended by adding after subsection (c) thereof the following new subsection:

"(d) Television broadcasting companies—

"(1) In general: In the case of a taxpayer engaged in the business of television broadcasting throughout a period beginning before January 1, 1951, and ending with the close of the taxable year, the taxpayer's average base period net income determined under this subsection shall be the amount computed as follows:

"(A) In the case of a corporation which at the close of its base period was engaged only in the business of television broadcasting, an amount computed by multiplying its total assets (as defined in sec. 442 (f)) on the last day of its base period by the base period rate of return determined under section 447 (c) for the industry classification which includes radio broadcasting.

"(B) In the case of a corporation which at the close of its base period was engaged only in the business of television broadcasting and radio broadcasting, an amount computed by multiplying its total assets (as defined in section 442 (f)) on the last day of its base period by either its individual rate of return (as defined in paragraph (2)) or by the base period rate of return determined under section 447 (c) for the industry classification which includes radio broadcasting, whichever rate of return produces the greater average base period net income under this subsection.

"(C) In the case of a corporation which at the end of its base period was engaged in the business of television and in another business or businesses, an amount computed by determining its average base net income under section 435 (d) for its businesses other than television broadcasting and other than radio broadcasting (determined without regard to income, deductions, losses, or other items from such television and radio broadcasting businesses), and by adding thereto an amount computed under subparagraph (B) by including in total assets only such part thereof as was attributable to the radio broadcasting business, if any, and to the television broadcasting business on the last day of its base period.

"(D) In the case of a corporation which acquires its television broadcasting business after the close of its base period and before January 1, 1951, an amount computed by determining its average base period net income without regard to this subparagraph and by adding thereto an amount computed under subparagraph (B) by including in total assets on the last day of its base period the amount (and only that amount) which would be included with respect to the television business if the television business had been acquired on the last day of its base period.

The Secretary shall by regulations prescribe the rules for the application of this subsection, the rules for the computation of the taxpayer's net capital addition, and the rules for the avoidance of duplication in any case in which assets included in computing total assets under subparagraph (B) are acquired, directly or indirectly, through the use of assets used in a business of the taxpayer other than radio or television broadcasting or, in the case of a taxpayer described in subparagraph (D), through the use of assets held at any time during its base period.

"(2) Individual rate of return: The individual rate of return shall be computed as follows:

"(A) By determining the amount of the taxpayer's total assets (as defined in sec. 442 (f)) attributable to the business of radio broadcasting for the last day of each month in its base period.

"(B) By computing the aggregate of the amounts ascertained under subparagraph (A) and dividing by 48.

"(C) By computing for each month in the base period the excess profits net income of the radio broadcasting business (determined without regard to income, deductions, losses, or other items attributable to any other business), by adding such amounts for all of the months in the base period, and by dividing by four.

"(D) By dividing the amount computed under subparagraph (C) by the amount computed under subparagraph (B).

"(3) Interest adjustment: In any case in which an amount is computed under paragraph (1) (A), or is computed under paragraph (1) (B) by the use of a base period rate of return determined under section 447 (c), the amount so computed shall, for the purpose of this subsection, be reduced by an amount equal to the total interest paid or incurred by the taxpayer for the 12 months ending with the close of its base period, and in the case of any amount determined under paragraph (1) (C) or (D) by reference to paragraph (1) (B) the amount so determined shall be reduced by such portion of such interest as the total assets determined under paragraph (1) (B) is of the total assets of the taxpayer determined under section 442 (f) for the last day of its base period.

"(4) Application of part II: The Secretary shall prescribe regulations for the application of part II in the case of a transaction described in section 461 (a) involving an acquiring corporation otherwise entitled to the benefits of this section."

The next amendment was, on page 326, after line 11, to insert a new section, as follows:

"SEC. 520. Excess profits credit based on income in connection with certain taxable acquisitions.

"(a) General rule: Subchapter D (relating to the excess profits tax) of chapter 1 is hereby amended by inserting immediately following section 472 the following new part:

"PART IV—EXCESS PROFITS CREDIT BASED ON INCOME IN CONNECTION WITH CERTAIN TAXABLE ACQUISITIONS OCCURRING PRIOR TO DECEMBER 1, 1950

"SEC. 474. Excess profits credit based on income—certain taxable acquisitions.

"(a) Definitions: For the purpose of this part—

"(1) Purchasing corporation: The term 'purchasing corporation' means a corporation which, before December 1, 1950, acquired—

"(A) All or substantially all of the properties (other than cash) of another corporation or of a partnership in a transaction other than a transaction described in section 461 (a); or

"(B) Properties of another corporation, in a transaction other than a transaction described in section 461 (a), if (i) such properties constituted, immediately prior to the acquisition, all of the properties (other than cash) of a separate business of such other corporation and (ii) all or substantially all of the properties (other than cash) of such other corporation were transferred, in furtherance of a single plan of complete liquidation for such other corporation, to the purchasing corporation and to one or more other corporations; or

"(C) Properties from a corporation solely as paid-in surplus or a contribution to capital in respect of voting stock owned by such corporation if such properties are all or substantially all of the properties (other than cash) acquired immediately prior thereto by such corporation as a purchasing corporation in a transaction described in subparagraph (A) or (B).

"(2) Selling corporation: The term 'selling corporation' means a corporation or a partnership, as the case may be, properties of which were acquired in a transaction described in subparagraph (A) or (B) of paragraph (1) by a purchasing corporation or by the corporation referred to in subparagraph (C) of paragraph (1).

"(3) Part IV transaction: The term 'part IV transaction' means a transaction described in paragraph (1).

"(b) Average base period net income of purchasing corporation: The average base period net income under section 435 (d) of a purchasing corporation shall be determined by computing its excess profits net income either with or without reference to this part, whichever produces the lesser tax under this subchapter for the taxable year for which the tax is being computed. The excess profits net income of such purchasing corporation, if computed under this part, shall be the excess profits net income for each month of such purchasing corporation's base period increased or decreased, as the case may be, by the addition or reduction resulting from including the excess profits net income (or deficit therein) for such month properly attributable to the business acquired by the purchasing corporation and properly allocable to such purchasing corporation.

"(c) Limitations: This part shall apply only if each of the following conditions is satisfied:

"(1) Immediately following the part IV transaction (or the last such transaction de-

scribed in subsection (a) (1) (B)), the selling corporation discontinued all business activities and was completely liquidated in a transaction other than a transaction described in section 461 (a).

"(2) During so much of the base period of the purchasing corporation and of the period thereafter as preceded the part IV transaction, the properties acquired in the part IV transaction were substantially all of the properties (other than cash) which were used by the selling corporation, or by a component corporation (as defined in section 461 (b)) of such selling corporation, in the operation of the business the assets of which were acquired by the purchasing corporation. For the purpose of this paragraph, if the business in the hands of both the selling corporation and the purchasing corporation was operated under a substantially identical franchise or license, granted by the same person, such franchise or license shall be deemed acquired by the purchasing corporation from the selling corporation.

"(3) The business acquired in the part IV transaction was operated by the purchasing corporation from the date of such transaction to the end of the taxable year.

"(d) Special rule: For the purpose of subsection (c) (1) (C), in determining whether property is acquired solely as paid-in surplus or a contribution to capital in respect of voting stock, the assumption by the purchasing corporation of a liability of the transferring corporation, or the fact that the property acquired is subject to a liability, shall be disregarded.

"(e) Regulations: The Secretary shall by regulations prescribe the rules (consistent with the principles of part II) for the application of this part to the parties to a part IV transaction, including rules for the application under this part of the principles described in section 462 (j) (1) and the other provisions of part II relating to the prevention of duplication, rules for the proper application to the parties to a part IV transaction of the provisions of this subchapter relating to capital changes, and rules for the determination of the amount of excess profits net income (or deficit therein) attributable to the business acquired by a purchasing corporation in a part IV transaction and properly allocable to such purchasing corporation.

"(b) Technical amendments.—

"(1) Section 435 (a) (3) (relating to amount of excess profits credit) is hereby amended by inserting before the period at the end thereof the following: ', and in the case of certain taxable acquisitions, see part IV of this subchapter.'

"(2) Section 462 (b) (relating to the method of recomputation of excess profits net income of an acquiring corporation) is hereby amended by adding at the end thereof the following new paragraph:

"(4) The Secretary shall provide by regulations for the application of this subsection in any case in which a purchasing corporation, as defined in part IV, is the component corporation."

On page 331, after line 8, to insert a new section, as follows:

"SEC. 521. Effective date of title V.

"Except as otherwise provided in section 510, the amendments made by this title shall be applicable only with respect to taxable years ending after June 30, 1950."

The next amendment was, on page 331, line 13, in the heading, after the word "Title", to strike out "V" and insert "VI."

The next amendment was, on page 331, line 15, to change the section number from "501" to "601."

The next amendment was, on page 332, after line 9, to strike out:

"SEC. 502. Excess profits credit based on income.

"(a) Percentage of average base period net income taken into account.—

"(1) In general: Paragraph (1) (A), and paragraph (2), of section 435 (a) (relating to excess profits credit based on income) are each amended by striking out '85 percent' and inserting in lieu thereof '75 percent.'

"(2) Taxable years beginning before January 1, 1951, and ending after December 31, 1950: Section 435 (a) is hereby amended by adding at the end thereof the following new paragraph:

"(4) Taxable years beginning in 1950 and ending in 1951: In the case of a taxable year beginning before January 1, 1951, and ending after December 31, 1950, there shall be used, for the purposes of paragraph (1) (A) and paragraph (2), in lieu of 85 percent of the average base period net income, an amount equal to the sum of—

"(A) that portion of an amount equal to 85 percent of the average base period net income which the number of days in such taxable year prior to January 1, 1951, bears to the total number of days in such taxable year, plus

"(B) that portion of an amount equal to 75 percent of the average base period net income which the number of days in such taxable year after December 31, 1950, bears to the total number of days in such taxable year."

"(b) Effective date: The amendments made by subsection (a) shall be applicable only with respect to taxable years ending after December 31, 1950."

The next amendment was, on page 333, after line 16, to insert a new section, as follows:

"SEC. 602. Foreign estate tax credit.

"(a) Credit against basic estate tax: Section 813 (relating to credits against estate tax) is hereby amended by adding at the end thereof the following new subsection:

"(c) Same—Paid to foreign countries.—

"(1) In general: The tax imposed by section 810 shall be credited with the amount of any estate, inheritance, legacy, or succession taxes actually paid to any foreign country in respect of any property situated within such foreign country and included in the gross estate (not including any such taxes paid with respect to the estate of a person other than the decedent). If the decedent at the time of his death was not a citizen of the United States, credit shall not be allowed under this subsection unless the foreign country of which such decedent was a citizen or subject, in imposing such taxes, allows a similar credit in the case of a citizen of the United States resident in such country. The determination of the country within which property is situated shall be made in accordance with the rules applicable under part III of this subchapter in determining whether property is situated within or without the United States.

"(2) Limitations on credit: The credit provided in this subsection with respect to such taxes paid to any foreign country—

"(A) shall not exceed an amount which bears the same ratio to the taxes actually paid to such foreign country as the value of property which is—

"(i) situated within such foreign country,

"(ii) subjected to the taxes of such foreign country, and

"(iii) included in the gross estate bears to the value of all property subjected to the taxes of such foreign country; and

"(B) shall not exceed an amount which bears the same ratio to the tax imposed by

section 810 (after deducting from such tax the credits provided by subsecs. (a) and (b) of this section) as the value of property which is—

“(i) situated within such foreign country,

“(ii) subjected to the taxes of such foreign country, and

“(iii) included in the gross estate

bears to the value of the entire gross estate reduced by the aggregate amount of the deductions allowed under subsections (c), (d), and (e) of section 812.

“(3) Valuation of property:

“(A) The values referred to in the ratio stated in paragraph (2) (A) are the values determined for the purposes of the taxes imposed by such foreign country.

“(B) The values referred to in the ratio stated in paragraph (2) (B) are the values determined under this chapter; but, in applying such ratio, the value of any property described in clauses (i), (ii), and (iii) thereof shall be reduced by such amount as will properly reflect, in accordance with regulations prescribed by the Secretary, the deductions allowed in respect of such property under subsections (c), (d), and (e) of section 812.

“(4) Proof of credit: The credits provided in this subsection and in section 936 (c) shall be allowed only if the taxpayer establishes to the satisfaction of the Secretary (A) the amount of taxes actually paid to the foreign country, (B) the amount and date of each payment thereof, (C) the description and value of the property in respect of which such taxes are imposed, and (D) all other information necessary for the verification and computation of the credits.

“(5) Period of limitation: The credits provided in this subsection and in section 936 (c) shall be allowed only for such taxes as were actually paid and credit therefor claimed within 4 years after the filing of the return required by section 821, except that—

“(A) If a petition for redetermination of a deficiency has been filed with the Tax Court of the United States within the time prescribed in section 871, then within such 4-year period or before the expiration of 60 days after the decision of the Tax Court becomes final.

“(B) If, under section 822 (a) (2) or section 871 (h), an extension of time has been granted for payment of the tax shown on the return, or of a deficiency, then within such 4-year period or before the date of the expiration of the period of the extension.

Refund based on such credits may (despite the provisions of sections 910 to 912, inclusive) be made if claim therefor is filed within the period above provided. Any such refund shall be made without interest.

“(b) Credit against additional estate tax: Section 936 (relating to credits against estate tax) is hereby amended by adding at the end thereof the following new subsection:

“(c) Estate, etc., taxes paid to foreign countries:

“(1) In general: In the case of the estate of a citizen or resident of the United States, the tax imposed by section 935 shall be credited with the amount of any estate, inheritance, legacy, or succession taxes actually paid to any foreign country in respect of any property situated within such foreign country and included in the gross estate (not including any such taxes paid with respect to the estate of a person other than the decedent). If the decedent at the time of his death was not a citizen of the United States, credit shall not be allowed under this subsection unless the foreign country of which such decedent was a citizen or subject, in imposing such taxes, allows a similar credit in the case of a citizen of the United States resident in such country. The determination of the country within which property is sit-

uated shall be made in accordance with the rules applicable under part III of subchapter A in determining whether property is situated within or without the United States.

“(2) Limitations on credit: The credit provided in this subsection with respect to such taxes paid to any foreign country—

“(A) shall not exceed the amount by which such taxes paid to the foreign country exceed the amount of the credit allowed therefor under section 813 (c); and

“(B) shall not exceed an amount which bears the same ratio to the tax imposed by section 935 (after deducting from such tax the credit provided by subsection (b) of this section) as the value of property which is—

“(i) situated within such foreign country,

“(ii) subjected to the taxes of such foreign country, and

“(iii) included in the gross estate

bears to the value of the entire gross estate reduced by the aggregate amount of the deductions allowed under subsections (c), (d), and (e) of section 812.

“(3) Same—Special rules:

“(A) For the purposes of paragraph (2) (A), “such taxes paid to the foreign country” shall be an amount which bears the same ratio to the taxes actually paid to such foreign country as the value of property which is—

“(i) situated within such foreign country,

“(ii) subjected to the taxes of such foreign country, and

“(iii) included in the gross estate

bears to the value of all property subjected to the taxes of such foreign country. The values referred to in this ratio are the values determined for the purposes of the taxes imposed by such foreign country.

“(B) The values referred to in the ratio stated in paragraph (2) (B) are the values determined under this chapter; but, in applying such ratio, the value of any property described in clauses (i), (ii), and (iii) thereof shall be reduced by such amount as will properly reflect, in accordance with regulations prescribed by the Secretary, the deductions allowed in respect of such property under subsections (c), (d), and (e) of section 812.

“(4) Proof of credit:

“For provisions relating to proof of credit, see section 813 (c) (4).

“(5) Period of limitation:

“For provisions relating to period of limitation on claiming of credit or refund based thereon and nonpayment of interest on refund, see section 813 (c) (5).”

“(c) Reversionary or remainder interest: Section 927 (relating to credit for State death taxes) is hereby amended to read as follows:

“SEC. 927. Credit for death taxes.

“Such part of any estate, inheritance, legacy, or succession taxes allowable as a credit under section 813 (b) or (c) against the tax imposed by this subchapter, or under section 936 (c) against the tax imposed by subchapter B, as is attributable to such reversionary or remainder interest may be allowed as a credit against the tax attributable to such interest, subject to the limitations on the amount of credit contained in such sections, if such part is paid, and credit therefor claimed, at any time prior to the expiration of 60 days after the termination of the precedent interest or interests in the property.”

“(d) Extension of period of limitations, etc., in case of recovery of taxes claimed as credit: Section 874 (b) (relating to exceptions to general rule as to period of limitation upon assessment and collection of estate tax) is hereby amended by inserting at the end thereof the following new paragraph:

“(3) Recovery of taxes claimed as credit: If any tax claimed as a credit under section

813 (b) or (c) or section 936 (c) is recovered from any foreign country, any State, any Territory or possession of the United States, or the District of Columbia, the executor, or any other person or persons recovering such amount, shall give notice of such recovery to the Secretary at such time and in such manner as may be required by regulations prescribed by him, and the Secretary shall redetermine the amount of the tax under this chapter and the amount, if any, of the tax due upon such redetermination, shall be paid by the executor or such person or persons, as the case may be, upon notice and demand.”

“(e) Effective date: The amendments made by this section shall be applicable with respect to estates of decedents dying after the date of the enactment of this act.”

The next amendment was, on page 342, line 1, to change the section number from “503” to “603.”

The next amendment was, on page 343, after line 3, to insert a new section, as follows:

“SEC. 604. Estate tax exemption for works of art loaned by nonresident aliens.

“(a) Amendment of section 863 (c): Section 863 (c) (relating to exemption of works of art loaned by nonresident aliens) is hereby amended to read as follows:

“(c) Works of art on loan for exhibition: Works of art owned by a nonresident not a citizen of the United States (1) imported into the United States solely for exhibition purposes, (2) loaned for such purposes to a public gallery or museum, no part of the net earnings of which inure to the benefit of any private stockholder or individual, and (3) at the time of the death of the owner, on exhibition, or en route to or from exhibition, in such a public gallery or museum.”

“(b) Effective date: The amendment made by this section shall be applicable only with respect to estates of decedents dying after the date of the enactment of this act.”

On page 343, after line 20, to insert a new section, as follows:

“SEC. 605. Exemption from additional estate tax of members of Armed Forces upon death.

“Section 939 (relating to the estate-tax treatment of certain members of the Armed Forces) is hereby amended as follows:

“(1) By inserting before the first sentence thereof the following:

“(a) Deaths after December 6, 1941, and before January 1, 1947.—”

“(2) By adding at the end thereof the following:

“(b) Deaths after June 24, 1950, and before January 1, 1954: The tax imposed by section 935 shall not apply to the transfer of the net estate of a citizen or resident of the United States dying after June 24, 1950, and before January 1, 1954, while in active service as a member of the Armed Forces of the United States, if such decedent—

“(1) was killed in action while serving in a combat zone, as determined under section 22 (b) (13); or

“(2) died as a result of wounds, disease, or injury suffered, while serving in a combat zone (as determined under section 22 (b) (13)) and while in line of duty, by reason of a hazard to which he was subjected as an incident of such service.”

The next amendment was, on page 344, after line 18, to insert a new section, as follows:

“SEC. 606. Transfers conditioned upon survivorship.

“In the case of property transferred by a decedent dying after March 18, 1937, and before February 11, 1939, the determination of whether such property is to be included in his gross estate under section 302 (c) of the Revenue Act of 1926 (44 Stat. 70) as a

transfer intended to take effect in possession or enjoyment at or after his death shall be made in conformity with Treasury Regulations in force at the time of his death."

The next amendment was, on page 345, after line 2, to insert a new section, as follows:

"SEC. 607. Transfers with income reserved.

"Section 7 (b) of the act entitled 'An act to amend certain provisions of the Internal Revenue Code,' approved October 25, 1949 (63 Stat. 895), is hereby amended by striking out 'January 1, 1950' and inserting in lieu thereof 'January 1, 1951'."

The next amendment was, on page 345, after line 8, to insert a new section, as follows:

"SEC. 608. Transfers taking effect at death.

"Effective with respect to estates of decedents dying after February 10, 1939, section 7 (b) of the act entitled 'An act to amend certain provisions of the Internal Revenue Code,' approved October 25, 1949 (63 Stat. 895), is hereby amended by striking out the word 'sentence' and inserting in lieu thereof 'two sentences' and by inserting immediately preceding the last sentence thereof the following sentence: 'The provisions of section 811 (c) (1) (C) of such code shall not apply to a transfer made prior to September 8, 1916.' The provisions of section 7 (c) of such act, as amended, shall not apply to an overpayment resulting from the application of this section."

The next amendment was, on page 345, after line 21, to insert a new section, as follows:

"SEC. 609. Reversionary interests in case of life insurance.

"If refund or credit of any overpayment resulting from the application of section 503 of the Revenue Act of 1950 is prevented on the date of the enactment of this act, or within 1 year from such date, by the operation of any law or rule of law (other than sec. 3760 of the Internal Revenue Code, relating to closing agreements, and other than sec. 3761 of such code, relating to compromises), refund or credit of such overpayment may, nevertheless, be made or allowed if claim therefor is filed within 1 year from the date of enactment of this act."

The next amendment was, on page 346, after line 8, to insert a new section, as follows:

"SEC. 610. Income pursuant to award of Interstate Commerce Commission.

"Notwithstanding section 42 of the Internal Revenue Code, amounts received, pursuant to an award under the order issued under the Railway Mail Pay Act of 1916 by the Interstate Commerce Commission on December 4, 1950, as compensation for the transportation of mail during 1950 and prior years shall be deemed to be income which accrued in the taxable years in which the services to which such compensation relates were rendered. Notwithstanding section 292 of such code, no interest shall be assessed or collected for any period prior to July 1, 1951, with respect to that part of any deficiency which the Secretary determines to be attributable to the inclusion of income in a taxable year by reason of the application of this section. Any deficiency attributable to the inclusion of income in any taxable year by reason of the application of this section may be assessed at any time prior to the expiration of the period for assessment with respect to the taxable year of the taxpayer which includes December 4, 1950,

notwithstanding the provisions of section 275 of the Internal Revenue Code or any other provision of law or rule of law which would otherwise prevent such assessment."

The next amendment was, on page 347, after line 6, to insert a new section, as follows:

"SEC. 611. Credit in prior taxable years for dividends received on preferred stock of a public utility.

"In the case of taxable years beginning before April 1, 1951, any reference in section 15 (a) or 26 (b) of the Internal Revenue Code to dividends received on the preferred stock of a public utility shall be construed as referring only to dividends received on the preferred stock of a public utility with respect to which the credit provided in section 26 (h) of such Code for dividends paid was allowable."

The next amendment was, on page 347, after line 17, to insert a new section, as follows:

"SEC. 612. Consolidated returns—includible corporation.

"If an affiliated group making a consolidated return with respect to the first taxable year of the group ending after June 30, 1950, included a corporation described in section 454 (f) of the Internal Revenue Code pursuant to the consent provided in section 141 (e) (7) of such code, such corporation may withdraw such consent at any time within 90 days after the enactment of this act. If such consent is withdrawn under the preceding sentence, the tax liability of the affiliated group and its several members for the taxable year shall be determined, assessed, and collected as if such corporation had never joined in the making of the consolidated return."

The next amendment was, on page 348, after line 5, to insert a new section, as follows:

"SEC. 613. Time for performing certain acts postponed in case of China Trade Act corporations.

"Section 3805 (relating to postponement of income tax due dates in the case of China Trade Act corporations) is hereby amended to read as follows:

"SEC. 3805. Income tax due dates postponed in case of China Trade Act corporations.

"In the case of any taxable year beginning after December 31, 1948, and ending before October 1, 1953, no Federal income tax return of, or payment of any Federal income tax by, any corporation organized under the China Trade Act of 1922 (42 Stat. 849, U. S. C., title 15, ch. 4), as amended, shall become due until December 31, 1953, but only with respect to any such corporation and any such taxable year which the Secretary may determine reasonable under the circumstances in China pursuant to such regulations as he may prescribe. Such due date shall be subject to the power of the Secretary to extend the time for filing such return or paying such tax, as in other cases."

The next amendment was, at the top of page 349, to insert a new section, as follows:

"SEC. 614. Treaty obligations.

"No amendment made by this act shall apply in any case where its application would be contrary to any treaty obligation of the United States."

The next amendment was, on page 349, line 5, to change the section number from "504" to "615."

COMMITTEE MEETINGS DURING SENATE SESSION

On request of Mr. HOLLAND (for Mr. ELLENDER), the Committee on Agriculture and Forestry was authorized to meet during the sessions of the Senate on Thursday and Friday of the present week.

Mr. MAYBANK. Mr. President, I merely wish to state for the RECORD that in view of the unanimous consent previously given to the Banking and Currency Committee to meet tomorrow during the session of the Senate, in order to write up certain sections of the Defense Production Act, the committee will meet at that time, in accordance with that permission.

RECOGNITION OF CONGRESSIONAL CONTROL OF APPROPRIATIONS

Mr. KNOWLAND. Mr. President, in the New York Times for today, September 19, appears an article entitled "New Arms Deficit Barred by Snyder," by Felix Belair, Jr. I wish to call the article to the attention of all Members of the Senate. I shall not read the entire article into the RECORD at this time, but I desire to read a portion of the article which relates to the position taken by John Snyder, Secretary of the Treasury of the United States.

I read the following from the article:

Mr. Snyder has displayed impatience only when, in discussions of "burden-sharing" among the member countries, it has been pointed out that a report from treaty organization's financial and economic board suggested that "ability to pay" should be considered in attempting to apportion the United States' share.

Only the people of the United States can decide the question of their "ability to pay" for helping to rearm the free world, the Secretary maintains, and anybody short of Congress that attempts to anticipate that decision may be due for a sad awakening. He believes that Congress has given the only answer to the question for the time being by setting the new income-tax rates.

Mr. President, I think that is a very refreshing statement on the part of a responsible official in the executive branch of our Government, who recognizes that the policy-determining body for the United States, insofar as appropriations are concerned, is the Congress of the United States.

I trust that some of his colleagues in the executive branch of the Government will read Mr. Snyder's statement and will read the article to which I am referring at this time, which relates to Mr. Snyder's statements; and I believe Mr. Snyder will have the approval of the Members of the Congress.

I think Mr. Snyder was amply justified in making that very clear statement to the representatives of the foreign powers, who now are meeting in Ottawa.

In connection with the remarks I have just made, I wish to call the attention of the Members of the Senate to the debate which occurred on August 30, 1951, relative to the foreign-aid bill, and

to the remarks I made at that time, as they appear on pages 11055 to 11057 of the CONGRESSIONAL RECORD. During that discussion I placed in the RECORD the figures as to what the United States was doing in the way of the percentage of its total budget which goes to defense needs; and I also placed in the RECORD the figures on the percentage of our national income which we are devoting to defense purposes, as compared with the expenditures of certain other countries in connection with the defense program.

I hope the representatives of foreign countries who are gathered at Ottawa

will pay some attention to the article by Mr. Belair and also to the statements which have been attributed to the Secretary of the Treasury of the United States.

RECESS

Mr. McFARLAND. Mr. President, I now move that the Senate stand in recess until tomorrow, at 10 o'clock a. m.

The motion was agreed to; and (at 5 o'clock and 39 minutes p. m.) the Senate took a recess until tomorrow, Thursday, September 20, 1951, at 10 o'clock a. m.

NOMINATIONS

Executive nominations received by the Senate September 19, 1951:

NATIONAL SCIENCE BOARD, NATIONAL SCIENCE FOUNDATION

George W. Merck, of New Jersey, to be a member of the National Science Board, National Science Foundation, for the remainder of the term expiring May 10, 1954, vice Edward L. Moreland, deceased.

Earl P. Stevenson, of Massachusetts, to be a member of the National Science Board, National Science Foundation, for the remainder of the term expiring May 10, 1956, vice Charles E. Wilson, resigned.

should feel these obligations should be assumed in this manner, then many new problems will arise which will quite materially slow down the ultimate acceptance of this bill. My thought would be that if the Congress feels that we can assume even a portion of the past costs of disaster, and I strongly favor this, then I feel that it should be done through direct grants rather than by retroactive insurance.

REVENUE ACT OF 1951—AMENDMENTS

Mr. CARLSON submitted amendments intended to be proposed by him to the bill (H. R. 4473) to provide revenue, and for other purposes, which were ordered to lie on the table and to be printed.

Mr. ECTON submitted an amendment intended to be proposed by him to House bill 4473, supra, which was ordered to lie on the table and to be printed.

Mr. JOHNSTON of South Carolina submitted an amendment intended to be proposed by him to House bill 4473, supra, which was ordered to lie on the table and to be printed.

Mr. HENDRICKSON submitted an amendment intended to be proposed by him to House bill 4473, supra, which was ordered to lie on the table and to be printed.

Mr. HENDRICKSON (for himself, Mr. SMITH of New Jersey, Mr. KNOWLAND, and Mr. NIXON) submitted an amendment intended to be proposed by them, jointly, to House bill 4473, supra, which was ordered to lie on the table and to be printed.

Mr. WILLIAMS submitted an amendment intended to be proposed by him to House bill 4473, supra, which was ordered to lie on the table and to be printed.

Mr. WILLIAMS (for himself, Mr. FREAR, Mr. WATKINS, Mr. FERGUSON, Mr. GILLETTE, Mr. IVES, Mr. BENNETT, Mr. SCHOEPPPEL, Mr. BYRD, Mr. CAIN, Mr. BRICKER, Mr. BUTLER of Maryland, Mr. HENDRICKSON, Mr. JENNER, Mr. BREWSTER, Mr. MARTIN, Mr. KEM, and Mr. MORSE) submitted an amendment intended to be proposed by them, jointly, to House bill 4473, supra, which was ordered to lie on the table and to be printed.

Mr. THYE submitted an amendment intended to be proposed by him to House bill 4473, supra, which was ordered to lie on the table and to be printed.

Mr. MCKELLAR. Mr. President, I submit an amendment intended to be proposed by me to the bill (H. R. 4473) to provide revenue, and for other purposes.

The production of calcium and magnesium carbonates is of tremendous importance to the economy of the United States. Some of its more important industrial applications are: fluxing purposes, alkali, refractories, paper, calcium carbide, glass, water purification, sugar, whiting, magnesia, mineral food, coal-mine dusting, magnesium metal, insecticides, fungicides and disinfectants, leather, sewage and trade-waste treatment, fertilizer filler and also many miscellaneous processing industries.

As the Bureau of Mines has recently stated in one of its bulletins:

The importance of calcium and magnesium carbonates to industry cannot be measured

by its tonnage or money value, because for many industries calcium and magnesium carbonates are essential raw materials for which it is impractical to use any substitutes.

The VICE PRESIDENT. The amendment will be received, and printed, and will lie on the table.

ADDRESSES, EDITORIALS, ARTICLES, ETC., PRINTED IN THE APPENDIX

On request, and by unanimous consent, addresses, editorials, articles, etc., were ordered to be printed in the Appendix, as follows:

By Mr. HILL:

An article entitled "Federal Government Claims No Inland Waters, Tidelands, Nor Harbors; Seeks Control Only of Mineral Lands Submerged by the Open Ocean," written by Senator O'MAHONEY and published through the facilities of the North American Newspaper Alliance on September 16, 1951.

By Mr. WILBY:

Statement prepared by him and certain printed material relating to a proposed study of crime on the New York-New Jersey water front.

By Mr. MCCARRAN:

Address on the Internal Security Act, delivered by Hon. Hiram Bingham, Chairman of the Loyalty Review Board, United States Civil Service Commission, in New York City, on September 18, 1951.

By Mr. BENTON:

Guest editorial entitled "The Key To Peace of Soul," written by the Most Reverend Henry J. O'Brien, and published in the Hartford Times of September 18, 1951.

By Mrs. SMITH of Maine:

Letter addressed to her by Marie Genest, of Waterville, Maine, indicating that the young people of America are thinking.

By Mr. SALTONSTALL:

Article entitled "Boston FM Station Opens October 6; Six Colleges and Symphony Back It," published in the New York Times of September 20, 1951, with reference to the broadcast of programs of the Boston Symphony Orchestra concerts and cultural programs provided by Greater Boston's universities and colleges.

AUTOMOBILES OR OTHER CONVEYANCES FOR CERTAIN DISABLED VETERANS

The VICE PRESIDENT laid before the Senate the amendments of the House of Representatives to the bill (S. 1864) to authorize payments by the Administrator of Veterans' Affairs on the purchase of automobiles or other conveyances by certain disabled veterans who served during World War II, and persons who served in the military, naval, or air service of the United States on or after June 27, 1950, and for other purposes, which were to strike out all after the enacting clause and insert:

That, subject to the conditions hereinafter set forth, the Administrator of Veterans' Affairs is authorized and directed, under such regulations as he shall prescribe, to provide or assist in providing an automobile or other conveyance by paying not to exceed \$1,600 on the purchase price, including equipment with such special attachments and devices as the Administrator may deem necessary, for each veteran of World War I or World War II or of service on or after June 27, 1950, and prior to such date as shall thereafter be determined by Presidential proclamation or concurrent resolution of the Congress, who is entitled to compensation under the laws administered by the Veterans' Administration for any of the following due to disability incurred in or aggravated by active military,

naval, or air service of the United States during any one of such periods:

(a) Loss or permanent loss of use of one or both feet;

(b) Loss or permanent loss of use of one or both hands;

(c) Permanent impairment of vision of both eyes of the following status: Central visual acuity of 20/200 or less in the better eye, with corrective glasses, or central visual acuity of more than 20/200 if there is a field defect in which the peripheral field has contracted to such an extent that the widest diameter of visual field subtends an angular distance no greater than 20 degrees in the better eye:

Provided, That instead of payment on the purchase price of an automobile or other conveyance such veteran may elect to receive, and the Administrator is authorized and directed to pay him, a cash benefit of \$1,600.

SEC. 2. No payment shall be made under this act for the repair, maintenance, or replacement of any such automobile or other conveyance and no veteran shall be given an automobile or other conveyance until it is established to the satisfaction of the Administrator that such veteran will be able to operate such automobile or other conveyance in a manner consistent with his own safety and the safety of others and will be licensed to operate such automobile or other conveyance by the State of his residence or other proper licensing authority: *Provided*, That a veteran who cannot qualify to operate a vehicle shall nevertheless be entitled to receive the cash benefit provided by this act if he meets the other eligibility requirements.

SEC. 3. The furnishing of such automobile or other conveyance, or the assisting therein, shall be accomplished by the Administrator paying the total purchase price, if not in excess of \$1,600, or the amount of \$1,600, if the total purchase price is in excess of \$1,600, to the seller from whom the veteran is purchasing under sales agreement between the seller and the veteran.

SEC. 4. No veteran shall be entitled to receive more than one automobile or other conveyance or cash benefit payment under the provisions of this act and no veteran who has received or who hereafter receives an automobile or other conveyance under the provisions of the paragraph under the heading "Veterans' Administration" in the First Supplemental Appropriation Act, 1947, as extended, or the Act of September 24, 1950 (Public Law 798, 81st Cong.), shall be entitled to receive an automobile or other conveyance or cash benefit payment under the provisions of this act.

SEC. 5. The benefits provided in this act shall not be available to any veteran who has not made application for such benefits to the Administrator within 3 years after the effective date of this act, or within 3 years after the date of the veteran's discharge or release from active service if the veteran is not discharged or released until on or after said effective date.

SEC. 6. There is hereby authorized to be appropriated to the Veterans' Administration out of any moneys in the Treasury not otherwise appropriated, such sums as may be required to carry into effect the provisions of this act.

And amend the title so as to read: "An act to authorize payments by the Administrator of Veterans' Affairs on the purchase of automobiles or other conveyances by certain disabled veterans or cash payments in lieu thereof, and for other purposes."

Mr. MURRAY. Mr. President, I move that the Senate disagree to the amendments of the House, ask a conference with the House on the disagreeing votes of the two Houses thereon, and that the

Chair appoint the conferees on the part of the Senate.

The motion was agreed to; and the Vice President appointed Mr. LEHMAN, Mr. PASTORE, and Mr. NIXON conferees on the part of the Senate.

EXECUTIVE MESSAGES REFERRED

As in executive session,

The VICE PRESIDENT laid before the Senate messages from the President of the United States submitting sundry nominations, which were referred to the appropriate committees.

(For nominations this day received, see the end of Senate proceedings.)

EXECUTIVE REPORT OF A COMMITTEE

As in executive session,

The following favorable report of a nomination was submitted:

By Mr. RUSSELL, from the Committee on Armed Services:

William C. Foster, of New York, to be Deputy Secretary of Defense.

REVENUE ACT OF 1951

The Senate resumed the consideration of the bill (H. R. 4473) to provide revenue, and for other purposes.

The VICE PRESIDENT. The bill is open to further amendment. There is no pending amendment.

Mr. SALTONSTALL. Mr. President, I know that Members on this side of the aisle have various amendments they wish to offer. I do not see any Senators on this side who have amendments to offer, so I suggest the absence of a quorum.

The VICE PRESIDENT. The Secretary will call the roll.

The Chief Clerk called the roll, and the following Senators answered to their names:

Butler, Md.	Green	Martin
Carlson	Hayden	McClellan
Clements	Hoey	McFarland
Connally	Hunt	Neely
Eastland	Ives	Pastore
Frear	Johnston, S. C.	Saltonstall
George	Kem	Smith, N. J.
Gillette	Lehman	Wiley

Mr. McFARLAND. I announce that the Senator from New Mexico [Mr. ANDERSON] is absent by leave of the Senate.

The Senator from Virginia [Mr. BYRD], the Senator from Missouri [Mr. HENNINGS], the Senator from Tennessee [Mr. KEFAUVER] are absent on official business.

Mr. SALTONSTALL. I announce that the Senator from Utah [Mr. BENNETT] and the Senator from Iowa [Mr. HICKENLOOPER] are absent by leave of the Senate.

The Senator from Ohio [Mr. TAFT] and the Senator from Nebraska [Mr. WHERRY] are necessarily absent.

The Senator from New Hampshire [Mr. TOBEY] is absent because of illness.

The PRESIDING OFFICER (Mr. CLEMENTS in the chair). A quorum is not present. The Secretary will call the names of absent Senators.

The Chief Clerk called the names of absent Senators, and Mr. DWORSHAK, Mr. HUMPHREY, Mr. KERR, and Mr. MURRAY answered to their names when called.

The VICE PRESIDENT. A quorum is not present.

Mr. McFARLAND. I move that the Sergeant at Arms be directed to request the attendance of absent Senators.

The motion was agreed to.

The VICE PRESIDENT. The Sergeant at Arms will execute the order of the Senate.

After a little delay Mr. McMAHON, Mrs. SMITH of Maine, Mr. HENDRICKSON, Mr. STENNIS, Mr. CAPEHART, Mr. HILL, Mr. O'MAHONEY, Mr. FLANDERS, Mr. MAYBANK, Mr. MILLIKIN, Mr. MUNDT, Mr. BUTLER of Nebraska, Mr. ROBERTSON, Mr. JOHNSON of Colorado, Mr. McKELLAR, Mr. WELKER, Mr. SMITH of North Carolina, Mr. KILGORE, Mr. LODGE, and Mr. LANGER entered the Chamber and answered to their names.

Mr. AIKEN, Mr. BENTON, Mr. BREWSTER, Mr. BRICKER, Mr. BRIDGES, Mr. CAIN, Mr. CASE, Mr. CHAVEZ, Mr. CORDON, Mr. DIRKSEN, Mr. DOUGLAS, Mr. DUFF, Mr. ECTON, Mr. ELLENDER, Mr. FERGUSON, Mr. FULBRIGHT, Mr. HOLLAND, Mr. JENNER, Mr. JOHNSON of Texas, Mr. KNOWLAND, Mr. LONG, Mr. MAGNUSON, Mr. MALONE, Mr. McCARRAN, Mr. MCCARTHY, Mr. MONRONEY, Mr. MOODY, Mr. MORSE, Mr. NIXON, Mr. O'CONOR, Mr. RUSSELL, Mr. SCHOEPPPEL, Mr. SMATHERS, Mr. SPARKMAN, Mr. THYE, Mr. UNDERWOOD, Mr. WATKINS, Mr. WILLIAMS, and Mr. YOUNG also entered the Chamber and answered to their names.

The VICE PRESIDENT. A quorum is present.

COMMITTEE MEETING DURING SENATE SESSION

On request of Mr. NEELY, and by unanimous consent, the Subcommittee To Study Senate Concurrent Resolution 21, of the Committee on Labor and Public Welfare, was authorized to meet during the session of the Senate today.

Mr. McKELLAR. Mr. President, we have been proceeding in the Appropriations Committee with the deficiency bill, and we are very busy with it. I wonder whether we may be excused. We will be in the committee, but I should like to be excused for the day, and to have the committee be excused.

The VICE PRESIDENT. The Senator may ask unanimous consent that the Appropriations Committee may be permitted to sit during the session today.

Mr. McKELLAR. Yes, Mr. President; we wish to be excused.

The VICE PRESIDENT. Without objection, it is so ordered.

COMMUNICATION FROM THE PRESIDENT REGARDING PENDING TAX BILL

The VICE PRESIDENT. The Chair lays before the Senate a communication addressed to the Vice President from the President of the United States, relating to the pending tax bill, which the clerk will read.

The legislative clerk read the communication, as follows:

THE WHITE HOUSE,

Washington, September 20, 1951.

Hon. ALBEN W. BARKLEY,

The Vice President of the United States, Washington, D. C.

MY DEAR MR. VICE PRESIDENT: As the Senate begins debate on the 1951 tax leg-

islation, I wish to emphasize the urgency of keeping the Government's finances on a sound basis. In particular, I wish to urge that the tax increases be large enough to meet the need for higher revenues, and that they be distributed fairly among the taxpayers.

Although the Congress has not yet completed action on all appropriation bills, it is already apparent that the costs associated with the defense program will exceed our expectations at the time the budget was prepared for the fiscal year ending June 30, 1952. Only last week, the Senate raised total appropriations for the military functions of the Defense Department by nearly \$2,000,000,000 over the budget requests. Since the beginning of this fiscal year, the Government's receipts have not kept pace with expenditures. Without new revenue legislation, the deficit for the year will be in the neighborhood of \$10,000,000,000.

The prospect of a sizable deficit under present conditions is cause for grave concern. As I have indicated on several occasions, adequate taxes are necessary to preserve confidence in the integrity of the Government's finances, to distribute the heavy defense costs fairly among our people, and to restrain inflationary pressures.

In the face of an indicated \$10,000,000,000 deficit, the bill which the Senate is about to consider would produce only \$5,200,000,000 in a full year and only about \$2,500,000,000 in the current fiscal year. It would yield about \$1,500,000,000 less in a full year than the bill passed by the House of Representatives.

I earnestly believe that these amounts are not sufficient. The Government's revenues should be increased by an amount that approaches as nearly as possible the \$10,000,000,000 I recommended. Toward this end I suggest that the legislation now before the Senate be strengthened in several respects.

First, the tax yields under the bill from individual income and corporate-profits taxes should be increased. Personal incomes and corporate profits are at record levels. The interest of those who receive this income will be best served by paying taxes at this time sufficient to maintain the stability of our economy.

Furthermore, corporation-tax increases should be made applicable to all profits for the current year. Postponement of the effective date until April 1, 1951, as provided in the bill before the Senate, would result in the loss of \$500,000,000 in revenue.

In addition, the bill now before the Senate contains many changes which would impair the effectiveness of the income and profits taxes. For example, the bill would enlarge the special classes of taxpayers benefiting from the overly generous capital-gains-tax provisions. It would further widen the tax loopholes benefiting various mining enterprises. It would give certain corporations unwarranted relief from excess-profits taxes. At a time of great national need, when everyone's tax load must be increased substantially, I feel strongly that we should not adopt provisions

which weaken our tax structure for the benefit of special groups.

The revenue bill which the committees of Congress have developed after many months of arduous work provides the basis for legislation appropriate to our present requirements. I urge the Congress to build on this foundation by strengthening its revenue yield and bringing it more in accord with the principles of fairness which must underlie our tax laws. A strong revenue system as vital to the defense of this country as strong military forces.

Very sincerely yours,

HARRY S. TRUMAN.

The VICE PRESIDENT. The communication from the President will lie on the table.

REVENUE ACT OF 1951

The Senate resumed the consideration of the bill (H. R. 4473) to provide revenue, and for other purposes.

The VICE PRESIDENT. The bill is open to amendment. No amendment is pending.

Mr. McMAHON. Mr. President, on behalf of my colleague [Mr. BENTON] and myself, I offer the amendment, which I send to the desk and ask to have stated.

The VICE PRESIDENT. The amendment will be stated.

The LEGISLATIVE CLERK. On page 332, in line 10, it is proposed to insert the following new subsection:

(E) For any taxable year beginning prior to December 31, 1953, no organization shall be denied exemption under section 101 of the Internal Revenue Code on the ground that it is carrying on an unrelated trade or business if such trade or business is the operation of a university press, established or acquired prior to December 31, 1950, by a college or university exempt under section 101 (6), and consists primarily in the publishing of educational books and papers. For any taxable year beginning subsequent to December 31, 1953, the operation by such college or university of any such university press shall not be construed to be an unrelated trade or business if such university press has been integrated as a department of the college or university under the direction of its faculty and administrative officers and has before the beginning of such taxable year organized its publishing activities so as to implement the activities of the college in serving the field of education.

Mr. McMAHON. Mr. President, Congress very properly struck at the practice of the purchase of unrelated businesses by universities or other educational institutions for the purpose of bringing income to those educational institutions. That purpose might have been a worthy one on behalf of university trustees, but it certainly created a very bad practice. One most unfortunate case was that of a university which purchased a macaroni factory. Of course, that macaroni factory was in competition with other macaroni factories; and to exempt from taxation the income of that macaroni factory, because it was owned by the university, was most unfair.

I wish to emphasize that the case about which I shall speak is not a macaroni-factory case. Wesleyan University would be affected by this amendment.

Wesleyan University was founded in 1831. It is a fine and liberal arts university in Connecticut. It is not a rich university. It is popularly known as one of the "Little Three," Williams and Amherst being the other two. It is non-sectarian, and its alumni in peace, as well as in war, have served their country and their communities, in the fields of teaching, government, military service, the pulpit, the sciences, and business. Woodrow Wilson taught there. President William Howard Taft and his Secretary of State, Elihu Root, participated in the inauguration of one of its presidents.

On September 9, 1949, Wesleyan University acquired by purchase, under a 10-year installment contract, with a down payment of \$400,000 from its own funds, the entire outstanding capital stock of three closely interrelated and singly operated educational publishing enterprises. The main publication of the enterprises is known as the Weekly Reader. The Weekly Reader is circulated in practically all the primary schools of our country and is the paper the children read, forming the basis of their civics lessons. The publication of books contributes only 8 percent of the income. I believe this case meets the test of the 1950 act, in that the activities are strictly educational.

After the macaroni company case, the Congress enacted into law, following the recommendation of the committee, a test for any business which was owned by an educational institution. The test is whether the business is related to the educational process.

Seventy-five percent of the income of this business, at the time when Wesleyan University acquired it, came from sources without any competition from private business, and the balance came from sources which compete only in the sense that every university press does. All its surplus inures to the exclusive benefit of Wesleyan University.

The university considers this educational publishing to be directly related to its own educational function. I know its president, several of its faculty, and several of its trustees, one of whom is my former junior colleague, Senator Baldwin. They are men of integrity who do not make the assertion frivolously, but the faculty and the administration, as well as the trustees, consider the press an educational opportunity for the university. The Treasury, however, cannot see its way clear to exempting the Wesleyan Press without the long process of test litigation, involving years during which the university's finances cannot wait. The Treasury's basic reason is—and I now read from its own memorandum:

1. An educational publishing activity cannot be related to a university if it goes beyond selling books to its own students on its own campus.
2. That its income inures exclusively to a college has, I quote, "no bearing."
3. The fact that the publications are strictly educational is not enough—I quote again, "the important word in section 101 (6) is 'charitable'—the word 'educational' is unnecessary. All the organizations intended

in this text to be exempt would be covered by the word 'charitable'."

In other words, the Treasury, in administering the act, reads the word "educational" right out of the law.

This interpretation can be extended to every university press that ever makes a profit. It vitiates the language about exempting related business activities, because if it is a business activity at all it is not charitable, and being educational does not make it related to educational activities.

This amendment, which has been drawn to cure the situation, is one which I believe merits the support of the Senate. What does it do? For any taxable year, beginning prior to January 1, 1953, no organization shall be denied exemption under section 101 of the Internal Revenue Code on the ground that it is carrying on an unrelated trade or business, if such trade or business is the operation of a university press established or acquired prior to December 31, 1950.

In other words, we are not opening up any wide gate at all. All we are saying is that this university, which bought this press prior to the date specified in the amendment, namely, before December 31, 1950, shall have a year and a half in which to integrate the activities of this press, which we now believe are related to the activities of the university sufficiently to come within the law; but, according to the Treasury, they do not.

Mr. MILLIKIN. Mr. President, will the Senator yield for a question?

Mr. McMAHON. I yield to the Senator from Colorado.

Mr. MILLIKIN. This process of integration is already under way, is it not?

Mr. McMAHON. I thank the Senator. It is already under way. The professors of the university are making a review of the school publications which go into the schoolhouses throughout the country. They are reviewing the substance of the matter. They are making plans for the improvement of it. They are making plans to bring the faculty of the university into direct contact with editing the publications of the department, so that they will be improved.

The president of Wesleyan University, Dr. Butterfield, has long felt that they have an insufficient connection between secondary education and higher education and his idea is to bring the high schools and the colleges closer together. He looks upon the opportunity this press will give him, and the publications that it issues and will issue, as a golden opportunity, a glorious opportunity to accomplish this purpose.

Mr. MILLIKIN. Mr. President, will the Senator yield?

Mr. McMAHON. I yield to the Senator from Colorado.

Mr. MILLIKIN. Is it not a fact that under the Senator's amendment Wesleyan University will not get this exemption, unless it, in good faith, within a limited period of time specified in the amendment, completely integrates the activity with its legitimate school activities? Is not that correct?

Mr. McMAHON. That is entirely correct; and the period, I call to the Senator's attention, is not a lengthy one; it is only until January 1, 1953; in other words, a year and a quarter. If they do not bring about the integration to the satisfaction of the Treasury Department, they would then be taxed. I may say to the Senator that this is a short time within which to bring about the weaving of this enterprise into the life of the university.

I emphasize the fact, which I am sure is well known, that university presses, such as the Yale University Press, the Chicago University Press, and the University of Oklahoma Press are not taxed. In some instances they publish another kind of book. For instance, Yale University Press published the book, *The Bridge of San Luis Rey*, one of the best sellers. They made some money out of that. Sometimes they publish books on which they lose money.

Mr. President, I think that pretty well expresses the highlights of the subject. The Treasury seemed to think, at the present moment, to use the term of the Senator from Colorado, when we had a brief hearing with the Finance Committee, the nexus had not been established firmly enough. We are going to try to satisfy the requirements with respect to the strength of the nexus, and we want a little time within which to do it.

Mr. BUTLER of Maryland and Mr. MILLIKIN addressed the Chair.

The VICE PRESIDENT. Does the Senator from Connecticut yield; and if so, to whom?

Mr. McMAHON. I yield to the Senator from Maryland.

Mr. BUTLER of Maryland. I defer to the Senator from Colorado.

Mr. MILLIKIN. No, let the Senator from Maryland proceed.

Mr. BUTLER of Maryland. I should like to ask the Senator from Connecticut whether his amendment would cover a case such as one in which the University Press has been integrated with the university for a number of years, publishes scientific books and educational books, and maintains in the university itself a store in which it sells books published by itself and others to students, and in which it sells school supplies and things of that kind?

Mr. McMAHON. I would defer, of course, to the Senator from Colorado, who is on his feet, except that I think I can say, subject to his much greater knowledge, that kind of institution is now exempt.

Mr. MILLIKIN. Mr. President if the Senator from Connecticut will yield, in order that I may answer the inquiry of the distinguished Senator from Maryland, as I understand, they are now exempt, and they are exempt because, in fact or in theory, they have integrated that activity with the educational activities of the institution. The Harvard Press is exempt, the Yale Press is exempt, the Culver University Press is exempt, all upon the theory that they have integrated the work of the press with the legitimate work of the school.

I should like to say to the distinguished Senator from Connecticut that I was

much impressed with his presentation of the matter before the committee, and also of the school authorities. I would not say that they have completely integrated. I think they have some distance to go before they completely integrate, but I believe they are making fair progress, and, in view of the public policy involved in the matter, when we are trying to help charitable and educational institutions by various tax methods, I hope they are given the chance to bring themselves into complete coordination with their educational activities. I hope the distinguished chairman of the Senate Finance Committee will agree to take the amendment to conference.

Mr. KERR. Mr. President, it is with great regret that I rise to oppose the amendment of the Senator from Connecticut. I oppose it because it would destroy the spirit of the legislation enacted by the Congress last year which placed a tax on the unrelated business activities of colleges and universities.

In order to exempt the operations described by the Senator from Connecticut, the Congress would have to provide an umbrella large enough so that any commercial enterprise of a college would be exempt, regardless of how remote the operation was from the business of the college. A press such as was mentioned by the Senator from Maryland [Mr. BUTLER] is already exempt. It is a college press operated on the campus of the college in connection with the business of the college and for the benefit of the students of the college, in connection with the work of the college. The only connection between the work of the enterprises referred to and described by the Senator from Connecticut, and the college which has purchased them, is the profit it produces.

Reference has been made to a college which engaged in a macaroni manufacturing enterprise. I hold no brief for macaroni, nor do I seek to make a case against it. In that instance it was a business operation carried on by a college for profit. That is the purpose of the commercial enterprises purchased by the college which has sought to be made exempt by this amendment.

There were three commercial enterprises, making a total of \$1,000,000 a year before taxes. It is true they were publishing a high grade of publications, but, Mr. President, there are countless such commercial operations in the country. The publication of school books is carried on as a business operation, conducted under the principles of free competitive private enterprise on a commercial basis for a profit which is taxable by the Government.

The college referred to by the Senator from Connecticut purchased these three commercial enterprises with an annual profit of \$1,000,000 a year before taxes. It purchased them, as I understand—and if I err, I ask the Senator from Connecticut to correct me—for a down payment of \$400,000, and I think the total purchase price was \$8,000,000, and the annual payments were \$400,000.

If the amendment is accepted, Mr. President, it would mean that the college, from the taxes it would save from

these commercial enterprises, could make the annual payments and the interest and keep approximately half of the \$1,000,000 a year profit free and clear for the period of time in which it was paying for the commercial enterprises which it purchased, after which it would have its entire income exempt.

There is no relation between that operation and the ordinary college press. The University of Oklahoma has a university press in the business of printing in connection with operations of the university. There is just as vast a difference, Mr. President, between a university developing a press as a part of the university program and a university buying commercial printing enterprises that are making a million dollars a year before taxes and then seeking to have them exempt, as there is between a university which in its own kitchen processes food for its own students and sells it to them at approximately cost, and the university which bought a macaroni factory that was making a profit and continued to operate at a profit, and sought to have the income from the operation made tax-free.

It may be that we erred when we passed a law providing that the profit from unrelated commercial business activities of universities and colleges should be taxed, but I do not think so for the simple reason that the evidence before the committee was conclusive that more and more of the universities and colleges of the country—and I do not blame them; I congratulate them—were acquiring successful business operations and continuing their operation in order that they might have a tax-free income. As Congress has seen fit, in meeting the compelling necessity for greater revenue, to increase the rate of taxation, it can very readily be seen how much more advantageous it becomes for a college or a university if it have an umbrella such as that proposed by the distinguished Senator from Connecticut, with exemption for anything that it calls a university press.

My good friend from Connecticut said it was the purpose to integrate the operation of those commercial enterprises into the scholastic life of the college. As an evidence of that purpose he invited attention to the fact that much of the material which it published was educational matter for high schools and grade schools.

The American Book Co., Mr. President, does nothing but publish textbooks for schools, mostly for high schools and grade schools. If the transactions referred to by the Senator were exempt, or were made exempt, the college affected or any other college could buy the American Book Co., Ginn & Co., or any other publishing company which publishes textbooks. I must say that if a commercial enterprise in the publishing business should have exemptions if it belongs to a college or university, then it could buy the publishing houses which publish the Bible or encyclopedias. They are related even more closely and could be more easily integrated into the scholastic work of a university than could a publishing house which publishes weekly papers in the main for grade schools.

Mr. President, my children have all come up through the grade schools. I have one now in the ninth grade. He comes home and says, "I must have 50 cents or \$1 a month to pay for Current Events or School Happenings." That, in the main, is the classification of publications which these commercial enterprises are putting out. Certainly they are fine, but they are put out for profit. Certainly the great university referred to by the Senator from Connecticut could integrate the operation into the life of the university, but the primary thing it would integrate would be the \$1,000,000 a year of tax-free profit. It never would integrate a great school weekly, current events newspaper, or papers for children. It wants to integrate that \$1,000,000 a year of tax-free profit.

Mr. President, I do not blame the university. Its desire is commendable, and if the Congress wants that to be the law it should accept the amendment which has been offered. But I submit that under the present law there is no tax on a university press that is in the business of publication for the benefit of the university or the students of the university. Such an enterprise is already exempt. The sole purpose of the amendment of the Senator from Connecticut is to exempt an operation bought solely because of the enormous profit which was being made—

Mr. McMAHON. Mr. President, will the Senator yield?

Mr. KERR. And the amendment would make that operation exempt and continue it as exempt.

Mr. McMAHON. Mr. President, will the Senator yield?

Mr. KERR. I yield.

Mr. McMAHON. The Senator has made a statement to the effect that this was bought exclusively for profit, that simply a profit motive brought about this purchase. Will the Senator cite the fact on which he bases that assertion?

Mr. KERR. The testimony before the committee was that there were three commercial printing operations making a million dollars a year before taxes. The testimony was that Wesleyan University bought them for \$8,000,000, with a down payment of \$400,000; that the company which sold them included a provision in the contract—the Senator has the contract, and if I err he will tell me—that the same men would continue to operate the publication business under the new owner until the total purchase price was paid. The president of the university was present. He said, "Yes, we intend to have our faculty consult with those who control this business." He was asked if he could remove them, as I remember. He said, "No." He was asked if the faculty could control the business operation, the policy of the operation. He said, "No." He said, "Our purpose is at the same time to have the faculty of our college advise with those in control to see if a program can be developed whereby the publications we issue will result in a greater interest in Wesleyan University."

I will leave it to any Senator to determine for himself the guiding motive be-

hind the purchase of the three commercial enterprises which had a million dollars a year profit before taxes, as a result of which the university now seeks an amendment of the bill to exempt that profit from taxation.

Mr. MILLIKIN. Mr. President, I think the Congress acted wisely when it legislated to end the tax exemption for unrelated activities of universities. I believe the legislation which Congress has passed will end such unrelated activities. Wesleyan University has this press business. It acquired it before Congress enacted the legislation. All that the distinguished Senators from Connecticut are trying to do by the amendment is to give the university until the 1st of January, 1953, to complete the process of integration which is already under way. Integration of what? Integration of those printing activities with the regular educational activities of the school.

I say that it is simply an act of fairness to give the university that chance. They acquired the property prior to the declaration of congressional intent. They are trying to bring the property activity into integration with their educational work. Maybe they can. Maybe they cannot. If they do not do it by January 1, 1953, their profits will be taxed, and should be taxed. But in the meantime, since we are supposed to be solicitous—

Mr. KERR. Mr. President, will the Senator yield?

Mr. MILLIKIN. I yield.

Mr. KERR. Did I understand the Senator from Colorado correctly to say that if they did not come under the provisions of the act they should be taxed?

Mr. MILLIKIN. That is right.

Mr. KERR. Why give them that exemption until they do it?

Mr. MILLIKIN. Because they are in the way of integrating themselves. That is the reason. They are in the process of doing the very thing the Congress says they should do if they want to be tax-exempt.

Mr. KERR. Mr. President, will the Senator yield for a question?

Mr. MILLIKIN. Yes, I am glad to yield.

Mr. KERR. When that becomes a reality, then does not the exemption apply?

Mr. MILLIKIN. It is a partial reality now, and so far as the junior—

Mr. KERR. Mr. President, will the Senator yield?

Mr. MILLIKIN. Wait a minute. I have not yielded yet. So far as the junior Senator from Colorado is concerned it is a partial reality now. It is a developing reality. I hope it will achieve the complete reality by January 1, 1953; and, because it is good public policy to assist our educational activities and because this activity is in process of integration, and because if they do not complete the process they will be taxed, and should be taxed, I am suggesting that we should give them a full fair year to complete that process.

Mr. KERR. Mr. President, will the Senator yield?

Mr. MILLIKIN. Certainly.

Mr. KERR. When they have completed the integration the exemption applies, does it not?

Mr. MILLIKIN. If they have completed it.

Mr. KERR. I should like the Senator to tell this body how an enterprise can be partially commercial for profit and partially related to the educational activities of a university or a college?

Mr. MILLIKIN. I answer the question in this way, that as of this moment the question of whether they are integrated or not integrated is an administrative problem of the Treasury, and I say that under my viewpoint, under what I consider to be a proper, liberal, viewpoint, where we are attempting to help education we can rule now that there has been sufficient integration to warrant the exemption. But I am trying to meet the extremes of the arguments which are made by the distinguished Senator from Oklahoma, and I say that if they have not completely met the punctilio that is in his mind, give them a fair chance to do so, and to allow them time until January 1, 1953, affords them, in my opinion, a fair chance.

Mr. McMAHON. Mr. President, will the Senator yield?

Mr. MILLIKIN. Yes, of course.

Mr. McMAHON. I ask the Senator from Colorado if it is true that "profit" upon which the Senator from Oklahoma rolled his tongue with great glee is not the test provided in the statute? The statute makes the test that of "educational purpose."

Mr. MILLIKIN. Of course, it is not the test. I am not so sure that we apply that test to the Harvard Press, or the Yale Press, or the University of Chicago Press, or to the Columbia University Press. The point there is, that they, in the opinion of the Treasury, have integrated the activities. That is the test, and it is the only honest test. So far as I am concerned, I hope that Wesleyan University does completely integrate itself. It has integrated itself sufficiently for my satisfaction, but I hope it will meet fully by January 1, 1953—shall I say—the crankier notions of some of the other Senators, and I hope the university will make a profit. It is that profit that helps the university. And when we help the university, we help a desirable educational activity.

Mr. McMAHON. Mr. President, will the Senator yield?

Mr. MILLIKIN. I yield.

Mr. McMAHON. Will not the Senator agree that if this university purchased, let us say, a profitable preparatory school, a secondary school, if we adopt the argument of the Senator from Oklahoma, the profits of such secondary school, which it cannot be denied would be derived from an educational activity, would be subject to a tax? This of course is absurd.

Mr. MILLIKIN. Of course, that sort of activity should not be taxed. No related activity should be taxed.

Mr. BUTLER of Maryland. Mr. President, will the Senator yield?

Mr. MILLIKIN. I yield.

Mr. BUTLER of Maryland. The question the Senator from Maryland asked earlier was prompted by the very argument the Senator from Oklahoma is making. That is why I was alarmed

about the reference to the Harvard Press and the presses of other universities. But be that as it may is it not also true that under the statutes of a number of States of the Union there are partially exempt educational and charitable institutions? Part of their operations are taxed and part are exempt. That is not an uncommon thing and certainly furnishes no basis upon which to deny exemption pending full compliance.

Mr. MILLIKIN. If we should take from our hospitals, our health associations, our health programs, our religious organizations, and our educational programs, the tax exemption, direct and indirect, they would collapse.

Mr. McMAHON. Mr. President, will the Senator yield?

Mr. MILLIKIN. I yield.

Mr. McMAHON. Is it not true that the Congress wrote into the law the provision for an exemption of educational institutions because it wanted to exempt them from tax, and they would not be taxed if they were not making money?

Mr. MILLIKIN. Of course, that is exactly true. They can get their money through their own internal activities which are legitimate, because they are educational, or they can get money from donors, or they can get money by being exempt from taxes. Each source constructively helps the other.

Our educational institutions are in distress because the donorship money which formerly enriched them and enabled them to expand and grow has dried up. Interest rates on their investments are substantially less. I am not going to say that the last few remaining sources of revenue shall be taken away from them. I cannot condemn that which is educational because it is also profitable.

The VICE PRESIDENT. The question is on agreeing to the amendment offered by the Senator from Connecticut [Mr. McMAHON] for himself and his colleague [Mr. BENTON]. [Putting the question.]

The Chair is in doubt. As many as favor the amendment will rise and remain standing until counted. Those opposed will rise and remain standing until counted.

Mr. McMAHON. I suggest the absence of a quorum.

The VICE PRESIDENT. The Secretary will call the roll.

The legislative clerk called the roll, and the following Senators answered to their names:

Aiken	Eastland	Johnson, Colo.
Benton	Eaton	Johnson, Tex.
Brewster	Ellender	Johnston, S. C.
Bricker	Ferguson	Kem
Bridges	Flanders	Kerr
Butler, Md.	Frear	Kilgore
Butler, Nebr.	Fulbright	Knowland
Cain	George	Langer
Capehart	Gillette	Lehman
Carlson	Green	Lodge
Case	Hayden	Long
Chavez	Hendrickson	Magnuson
Clements	Hill	Malone
Connally	Hoey	Martin
Cordon	Holland	Maybank
Dirksen	Humphrey	McCarran
Douglas	Hunt	McCarthy
Duff	Ives	McClellan
Dworschak	Jenner	McFarland

McKellar	O'Connor	Smith, N. C.
McMahon	O'Mahoney	Sparkman
Millikin	Pastore	Stennis
Monroney	Robertson	Thye
Moody	Russell	Underwood
Morse	Saltonstall	Watkins
Mundt	Schoeppel	Welker
Murray	Smathers	Wiley
Neely	Smith, Maine	Williams
Nixon	Smith, N. J.	Young

The VICE PRESIDENT. A quorum is present.

Mr. GEORGE. Mr. President, before a vote is taken, much as I dislike to do so, I am compelled to oppose the amendment. As the amendment is written it begins a whittling away of a perfectly sound and salutary principle which we put into the act of 1950 to prevent colleges and universities from acquiring wholly unrelated businesses, such as, in this case, publishing houses in distant States, and having them exempted from taxation. In the interest of preserving of what I believe to be a sound principle, and particularly in view of the form of the amendment, I shall have to oppose it.

Mr. McMAHON. Mr. President, in view of the statement of the chairman of the committee that he does not approve of the form of the amendment, I shall withdraw it.

The VICE PRESIDENT. The Senator from Connecticut withdraws the amendment.

Mr. McMAHON. I shall withdraw it for further consultation.

Mr. GEORGE. If the Senator from Connecticut will withdraw it, I shall be glad to consult with him. I believe we can work out an amendment which will cover legitimate cases in which universities are engaged in an enterprise which can be related to the activities of the university.

Mr. McMAHON. I thank the Senator.

The VICE PRESIDENT. The amendment is withdrawn. The bill is open to further amendment.

MESSAGE FROM THE HOUSE

A message from the House of Representatives, by Mr. Maurer, one of its reading clerks, announced that the House had passed the bill (S. 1046) to readjust postal rates, with an amendment, in which it requested the concurrence of the Senate.

The message also announced that the House had insisted upon its amendments to the bill (S. 1864) to authorize payments by the Administrator of Veterans' Affairs on the purchase of automobiles or other conveyances by certain disabled veterans who served during World War II, and persons who served in the military, naval, or air service of the United States on or after June 27, 1950, and for other purposes, disagreed to by the Senate; agreed to the conference asked by the Senate on the disagreeing votes of the two Houses thereon, and that Mr. ELLIOTT, Mr. TEAGUE, and Mrs. ROGERS of Massachusetts were appointed managers on the part of the House at the conference.

ENROLLED BILLS SIGNED

The message further announced that the Speaker had affixed his signature to the following enrolled bills, and they were signed by the Vice President:

S. 47. An act for the relief of Madeleine Quarez;
S. 76. An act for the relief of Herbert H. Heller;
S. 83. An act for the relief of First Lt. James E. Willcox;
S. 168. An act for the relief of Helmuth Assmas Balthasar Russow and Volker Harpe;
S. 295. An act for the relief of Michail Ioannou Bourbakis;
S. 426. An act for the relief of Teruko Okuaki;
S. 427. An act for the relief of Nene Baalstad;
S. 462. An act for the relief of Rosita Anita Navarro and Ramona Alicia Navarro;
S. 495. An act for the relief of Richard J. Walling;
S. 501. An act for the relief of Willem Houwink;
S. 520. An act for the relief of Wilma M. Stiehl;
S. 626. An act for the relief of Polly Anne Caldwell;
S. 665. An act for the relief of D. Lane Powers and Elaine Powers Taylor;
S. 880. An act for the relief of Ann Lamplugh;
S. 906. An act for the relief of Marie Kristine Hansen;
S. 1009. An act for the relief of Ella Maria Nyman;
S. 1028. An act for the relief of Mrs. Lou Wong Shong Ngan;
S. 1107. An act for the relief of I. N. Norman;
S. 1279. An act for the relief of Davis Min Lee;
S. 1425. An act for the relief of Mrs. Okuni Kobayashi;
S. 1504. An act for the relief of Valmal Eileen Mackenzie;
S. 1562. An act for the relief of Harvey Marden; and
S. 1786. An act for the relief of certain officers and employees of the Foreign Service of the United States who, while in the course of their respective duties, suffered losses of personal property by reason of war conditions and catastrophes of nature.

ENROLLED BILLS PRESENTED

The Secretary of the Senate reported that on today, September 20, 1951, he presented to the President of the United States the following enrolled bills:

S. 47. An act for the relief of Madeleine Quarez;
S. 76. An act for the relief of Herbert H. Heller;
S. 83. An act for the relief of First Lt. James E. Willcox;
S. 168. An act for the relief of Helmuth Assmas Balthasar Russow and Volker Harpe;
S. 295. An act for the relief of Michail Ioannou Bourbakis;
S. 426. An act for the relief of Teruko Okuaki;
S. 427. An act for the relief of Nene Baalstad;
S. 462. An act for the relief of Rosita Anita Navarro and Ramona Alicia Navarro;
S. 495. An act for the relief of Richard J. Walling;
S. 501. An act for the relief of Willem Houwink;
S. 520. An act for the relief of Wilma M. Stiehl;
S. 626. An act for the relief of Polly Anne Caldwell;
S. 665. An act for the relief of D. Lane Powers and Elaine Powers Taylor;
S. 880. An act for the relief of Ann Lamplugh;
S. 906. An act for the relief of Marie Kristine Hansen;
S. 1009. An act for the relief of Ella Maria Nyman;
S. 1028. An act for the relief of Mrs. Lou Wong Shong Ngan;

S. 1107. An act for the relief of I. N. Norman;

S. 1279. An act for the relief of Davis Min Lee;

S. 1425. An act for the relief of Mrs. Okuni Kobayashi;

S. 1504. An act for the relief of Valmai Eileen Mackenzie;

S. 1562. An act for the relief of Harvey Marden; and

S. 1786. An act for the relief of certain officers and employees of the Foreign Service of the United States who, while in the course of their respective duties, suffered losses of personal property by reason of war conditions and catastrophes of nature.

READJUSTMENT OF POSTAL RATES

The VICE PRESIDENT laid before the Senate the amendment of the House of Representatives to the bill (S. 1046) to readjust postal rates, which was to strike out all after the enacting clause and insert:

FIRST-CLASS MAIL

SECTION 1. (a) The rate of postage on each single postal card issued and sold under the provisions of section 3916 of the Revised Statutes (U. S. C., title 39, sec. 356), and on each portion of double postal cards issued and sold under the provisions of the act of March 3, 1879 (U. S. C., title 39, sec. 358), shall be 2 cents; *Provided*, That on all single and double postal cards sold in quantities of 100 or more there shall be an additional charge of 10 percent. The rate of postage on each private mailing or post card conforming to the conditions prescribed by the act of May 19, 1898 (U. S. C., title 39, sec. 281), shall be 2 cents.

(b) Except as provided in paragraph (a) of this section, the rate of postage on mail matter of the first class when mailed for local delivery at post offices where free delivery by carrier is not established and when the matter is not collected or delivered by rural or star route carriers, shall be 2 cents for each ounce or fraction thereof.

SECOND-CLASS MAIL

SEC. 2. (a) In the case of publications entered as second-class matter (including sample copies to the extent of 10 percent of the weight of copies mailed to subscribers during the calendar year) when mailed by the publisher thereof from the post office of publication and entry or other post office where such entry is authorized, or when mailed by news agents (registered as such under regulations prescribed by the Postmaster General) to actual subscribers thereto or to other news agents for the purpose of sale, the total postage computed at the pound rates in effect under existing law and based on the bulk weight of each mailing shall be increased by 10 percent, beginning on the first day of the second quarter beginning after the approval of this act and by an increase of 10 percent, based on the rates now in force, to take effect each year thereafter over a period of 2 years: *Provided*, That publications having over 75 percent advertising in more than one-half of their issues during any 12 months' period shall not be accepted for mailing as second-class matter and their entry shall be revoked: *Provided further*, That there shall be no change in the rate of postage on publications maintained by and in the interest of religious, educational, scientific, philanthropic, agricultural, labor, veteran, or fraternal organizations or associations, not organized for profit and none of the net income of which inures to the benefit of any private stockholder or individual: *Provided further*, That existing rates shall continue in effect with respect to any religious, educational, or scientific publication designed specifically for use in school classrooms or in religious instruction classes.

The publisher of any such publication before being entitled to such rate shall furnish proof of qualification to the Postmaster General at such times and under such conditions as the Postmaster General may prescribe.

(b) The free-in-county mailing privilege and the rates of postage on copies of publications of the second class when addressed for delivery within the county in which they are published and entered as such shall be the same as authorized by existing law: *Provided further*, That copies of a publication mailed at a post office where it is entered, for delivery by letter carriers at a different post office within the delivery limits of which the headquarters or general business office of the publisher is located, shall be chargeable with postage at the rate that would be applicable if the copies were mailed at the latter office, unless postage chargeable at the pound rates from the office of mailing is higher, in which case such higher rates shall apply.

(c) In no case, except where the free-in-county mailing privilege is applicable, shall the postage on each individually addressed copy be less than one-eighth of 1 cent.

(d) The rate of postage on copies of publications having second-class entry mailed by others than the publishers or authorized news agents, sample copies mailed by the publishers in excess of the 10-percent allowance entitled to be sent at the pound rates, and copies mailed by the publishers to persons who may not be included in the required legitimate list of subscribers shall be 2 cents for the first 2 ounces and 1 cent for each additional 2 ounces or fraction thereof, except when the postage at the rates prescribed for fourth-class matter is lower, in which case the latter rates shall apply, computed on each individually addressed copy or package of unaddressed copies, and not on the bulk weight of the copies and packages.

THIRD-CLASS MAIL

SEC. 3. The rate of postage on third-class matter shall be 2 cents for the first 2 ounces or fraction thereof, and 1 cent for each additional ounce or fraction thereof up to and including 8 ounces in weight, except that the rate of postage on books and catalogs of 24 pages or more, seeds, cuttings, bulbs, roots, scions, and plants not exceeding 8 ounces in weight shall be 2 cents for the first 2 ounces or fraction thereof and 1½ cents for each additional 2 ounces or fraction thereof: *Provided*, That upon payment of a fee of \$10 for each calendar year or portion thereof and under such regulations as the Postmaster General may establish for the collection of the lawful revenue and for facilitating the handling of such matter in the mails, it shall be lawful to accept for transmission in the mails, separately addressed identical pieces of third-class matter in quantities of not less than 20 pounds, or of not less than 200 pieces, subject to pound rates of postage applicable to the entire bulk mailed at one time: *Provided further*, That the rate of postage on third-class matter mailed in bulk under the foregoing provision shall be 14 cents for each pound or fraction thereof with a minimum charge per piece of 1½ cents, except that in the case of books and catalogs of 24 pages or more, seeds, cuttings, bulbs, roots, scions, and plants the rate shall be 10 cents for each pound or fraction thereof with a minimum charge per piece of 1½ cents: *And provided further*, That pieces or packages of such size or form as to prevent ready facing and tying in bundles and requiring individual distributing throughout shall be subject to a minimum charge of 5 cents each.

BOOKS

SEC. 4. The rates of postage prescribed by subsections (d) and (e) of section 204 of the Postal Rate Revision and Federal Em-

ployees Salary Act of 1948 shall remain in effect until otherwise provided by Congress.

SPECIAL DELIVERY

SEC. 5. Mail of any class shall be given the most expeditious handling and transportation practicable and immediate delivery at the office of address when, in addition to the regular postage, a special-delivery fee is prepaid thereon by means of special-delivery stamps or ordinary postage stamps, or in such other manner as the Postmaster General may prescribe, in accordance with the following schedule: Matter weighing not more than 2 pounds, if of the first class, 23 cents; if of any other class, 35 cents. Matter weighing more than 2 but not more than 10 pounds, if of the first class, 35 cents; if of any other class, 45 cents. Matter weighing more than 10 pounds, if of the first class, 50 cents; if of any other class, 60 cents.

REGISTERED MAIL

SEC. 6. (a) Mail matter shall be registered on the application of the party posting the same. The registry fees, which shall be in addition to the regular postage, and the limits of indemnity therefor within the maximum indemnity provided by this subsection, shall be as follows:

For articles having no intrinsic value and for which no indemnity is payable, 30 cents;

For registry indemnity not exceeding \$5, 40 cents;

For registry indemnity exceeding \$5 but not exceeding \$25, 55 cents;

For registry indemnity exceeding \$25 but not exceeding \$50, 65 cents;

For registry indemnity exceeding \$50 but not exceeding \$75, 75 cents;

For registry indemnity exceeding \$75 but not exceeding \$100, 85 cents;

For registry indemnity exceeding \$100 but not exceeding \$200, 95 cents;

For registry indemnity exceeding \$200 but not exceeding \$300, \$1.05;

For registry indemnity exceeding \$300 but not exceeding \$400, \$1.15;

For registry indemnity exceeding \$400 but not exceeding \$500, \$1.25;

For registry indemnity exceeding \$500 but not exceeding \$600, \$1.35;

For registry indemnity exceeding \$600 but not exceeding \$700, \$1.45;

For registry indemnity exceeding \$700 but not exceeding \$800, \$1.55;

For registry indemnity exceeding \$800 but not exceeding \$900, \$1.65;

For registry indemnity exceeding \$900 but not exceeding \$1,000, \$1.75: *Provided*, That for registered mail having a declared value in excess of \$25 a registry fee of not less than 55 cents shall be paid.

(b) For registered mail or insured mail treated as registered mail having a declared value in excess of the maximum indemnity covered by the registry or insurance fee paid there shall be charged additional fees (known as "surcharges") as follows: When the declared value exceeds the maximum indemnity covered by the registry or insurance fee paid by not more than \$50, 2 cents; by more than \$50 but not more than \$100, 3 cents; by more than \$100 but not more than \$200, 4 cents; by more than \$200 but not more than \$400, 6 cents; by more than \$400 but not more than \$600, 7 cents; by more than \$600 but not more than \$800, 8 cents; by more than \$800 but less than \$1,000, 10 cents; and if the excess of the declared value over the maximum indemnity covered by the registry or insurance fee paid is \$1,000 or more, the additional fees for each \$1,000 or part of \$1,000 on articles destined to points within the several zones applicable to fourth-class matter shall be as follows:

For local delivery or for delivery within the first zone, 12 cents;

For delivery within the second zone, 14 cents;

For delivery within the third zone, 16 cents;

For delivery within the fourth zone, 17 cents;

For delivery within the fifth or sixth zones, 18 cents;

For delivery within the seventh or eighth zones, 19 cents: *Provided*, That for registered mail or insured mail treated as registered mail of such kind or character that it may be carried at less than the maximum risk of loss in the mails, the Postmaster General may prescribe rules for determining upon what part of the declared value in excess of the maximum indemnity covered by the registry or insurance fee paid the additional fees shall be based.

RETURN RECEIPTS FOR REGISTERED MAIL

SEC. 7. Whenever the sender of any registered mail shall so request, and upon payment of a fee of 7 cents at the time of mailing or of 15 cents subsequent to the time of mailing, a receipt shall be obtained for such registered mail, showing to whom and when the same was delivered, which receipt shall be returned to the sender, and be received in the courts as prima facie evidence of such delivery: *Provided*, That upon payment of the additional sum of 24 cents at the time of mailing of any such registered mail, a receipt shall be obtained for such registered mail, showing to whom, when, and the address where the same was delivered, which receipt shall be returned to the sender, and be received in the courts as prima facie evidence of such delivery: *Provided further*, That no refund shall be made of fees paid for return receipts for registered mail where the failure to furnish the sender a return receipt or the equivalent is not due to the fault of the postal service.

FEES FOR INSURED MAIL

SEC. 8. The fees for insurance, which shall be in addition to the regular postage, and the limits of indemnity therefor within the maximum indemnity provided by this section, shall be as follows: 5 cents for indemnification not exceeding \$5; 10 cents for indemnification exceeding \$5 but not exceeding \$10; 15 cents for indemnification exceeding \$10 but not exceeding \$25; 20 cents for indemnification exceeding \$25 but not exceeding \$50; 30 cents for indemnification exceeding \$50 but not exceeding \$100; 35 cents for indemnification exceeding \$100 but not exceeding \$200.

RETURN RECEIPTS FOR INSURED MAIL

SEC. 9. Whenever the sender of an insured article of mail on which other than the minimum fee was paid shall so request, and upon payment of a fee of 7 cents at the time of mailing or of 15 cents subsequent to the time of mailing, a receipt shall be obtained for such insured mail, showing to whom and when the same was delivered, which receipt shall be returned to the sender, and be received in the courts as prima facie evidence of such delivery: *Provided*, That upon payment of the additional sum of 24 cents at the time of mailing of any insured article of mail on which other than the minimum fee was paid, a receipt shall be obtained for such insured mail, showing to whom, when, and the address where the same was delivered, which receipt shall be returned to the sender, and be received in the courts as prima facie evidence of such delivery: *Provided further*, That no refund shall be made of fees paid for return receipts for insured mail where the failure to furnish the sender a return receipt or the equivalent is not due to the fault of the postal service.

FEES FOR COLLECT-ON-DELIVERY MAIL

SEC. 10. The fees for collect-on-delivery service for sealed domestic mail matter of any class bearing postage at the first-class rate and for domestic third- and fourth-class mail matter shall, in addition to the regular postage and any other required fees, be as follows: 30 cents for collections and indemnity not exceeding \$5; 40 cents for

collections and indemnity exceeding \$5 but not exceeding \$10; 60 cents for collections and indemnity exceeding \$10 but not exceeding \$25; 70 cents for collections and indemnity exceeding \$25 but not exceeding \$50; 80 cents for collections and indemnity exceeding \$50 but not exceeding \$100; 90 cents for collections and indemnity exceeding \$100 but not exceeding \$150; \$1 for collections and indemnity exceeding \$150 but not exceeding \$200.

REGISTERED COLLECT-ON-DELIVERY MAIL

SEC. 11. (a) The fee for collect-on-delivery service for registered sealed domestic mail of any class bearing postage at the first-class rate shall, in addition to the regular postage and any other required fees, be 80 cents for collections and indemnity not exceeding \$10; \$1.10 for collections and indemnity exceeding \$10 but not exceeding \$50; \$1.20 for collections and indemnity exceeding \$50 but not exceeding \$100; \$1.40 for collections and indemnity exceeding \$100 but not exceeding \$200. The maximum amount of charges collectible on any registered sealed domestic collect-on-delivery article shall be \$200.

(b) When indemnity in excess of \$200 is desired, the fee for such registered sealed domestic collect-on-delivery mail shall, in addition to the regular postage and any other required fees, be \$1.50 for indemnity exceeding \$200 but not exceeding \$300; \$1.60 for indemnity exceeding \$300 but not exceeding \$400; \$1.70 for indemnity exceeding \$400 but not exceeding \$500; \$1.80 for indemnity exceeding \$500 but not exceeding \$600; \$1.90 for indemnity exceeding \$600 but not exceeding \$700; \$2 for indemnity exceeding \$700 but not exceeding \$800; \$2.10 for indemnity exceeding \$800 but not exceeding \$1,000.

SEC. 12. (a) The Postmaster General is authorized to prescribe by regulation from time to time the fees which shall be charged by the postal service—

- (1) for the registry of mail matter;
- (2) for the insurance of mail matter, or other indemnification of senders thereof for articles damaged or lost;
- (3) for securing a signed receipt upon the delivery of registered or insured mail matter and returning such receipt to sender;
- (4) for collect-on-delivery service;
- (5) for special-delivery service;
- (6) for special-handling service;
- (7) for the issuance of money orders;
- (8) for notice to publishers of undeliverable second-class mail, for notice of change of address, and for notice to addressee or sender of undeliverable third- or fourth-class matter, or of undeliverable second-class matter mailed at the transient rate.

(b) Regulations issued by the Postmaster General under subsection (a) shall, to the extent prescribed therein, supersede existing laws, regulations, and orders governing the fees for the services covered thereby.

SEC. 13. All existing laws or portions thereof, inconsistent or in conflict with this act, are hereby amended or repealed.

SEC. 14. This act shall take effect on the first day of the third calendar month following the calendar month in which it is enacted, except the rates herein provided for second-class mail shall take effect on the first day of the second quarter beginning after the approval of this act.

Mr. JOHNSTON of South Carolina. Mr. President, I move that the Senate disagree to the amendment of the House, ask a conference with the House on the disagreeing votes of the two Houses thereon, and that the Chair appoint the conferees on the part of the Senate.

The motion was agreed to; and the Presiding Officer appointed Mr. JOHNSTON of South Carolina, Mr. PASTORE, Mr. UNDERWOOD, Mr. LANGER, and Mr. CARLSON conferees on the part of the Senate.

REVENUE ACT OF 1951

The Senate resumed the consideration of the bill (S. 4473) to provide revenue, and for other purposes.

Mr. HUMPHREY. Mr. President, I rise to discuss the tax bill and at the same time to serve notice that I intend to join with a number of my colleagues in offering a large number of amendments which we believe will improve the bill.

I fully realize that the committee has labored long and worked very conscientiously to produce a bill of 349 pages. It held hearings for more than 10 weeks. The final product of the work, however, was not made available to the Senate until yesterday afternoon. Therefore our amendments—and I speak for several of my colleagues—and our final analysis of the bill were delayed. Consequently, the amendments will not be printed and on the desks of Senators until tomorrow.

Mr. President, I shall use this occasion to advise the Senate and the majority leadership that it is most unwise to legislate on such an important measure in the manner in which we are presently doing. The importance of the bill is unmistakable. Every taxpayer in the country knows how important it is. Yet the Members of the Senate have had less than 24 hours to study its details and draw conclusions with regard to the bill.

Mr. KERR. Mr. President, will the Senator yield?

Mr. HUMPHREY. Yes.

Mr. KERR. I assume the Senator is aware of the fact that the committee twice a day gave out press releases over the period of the past several weeks, giving the details of what had been done during the sessions of the committee, and that that information was thus made public and has been public ever since.

Mr. HUMPHREY. I am aware of that fact. I thank the Senator from Oklahoma. I am sure he would not want to conduct his business, the work of the Senate, or his household on the basis of press releases. We are dealing with a measure which we hope will raise a substantial sum of money. It is incredible that we should find ourselves in a situation of having before us three volumes of hearings and a bill which contains more pages than any bill the Senate has had before it since the social-security bill, together with a report of 122 pages of fine print, and that we should have had less than 24 hours in which to discuss, study, and understand it.

Mr. KERR. Mr. President, will the Senator yield further?

Mr. HUMPHREY. I submit that no matter how wise or expert a man may be it is difficult for him to understand the technical details of such a bill in a 24-hour period. I yield further to the Senator from Oklahoma.

Mr. KERR. First I wish to join the Senator from Minnesota in the expression that there is a possibility that complete reliance cannot be placed on everything that appears in the press. With that statement in mind, I say to my good friend, the Senator from Minnesota, that according to the press, the

Senator from Minnesota has for some days had a number of amendments prepared for submission, with reference to suggested changes in the language of this bill. Is that statement by the press accurate?

Mr. HUMPHREY. Mr. President, I always wish to pay my high regards to the accuracy of the press. I have been preparing suggested amendments, as I have read the press releases from the Senate Finance Committee. I worked in the hope that the press releases were accurate, and that the amendments would be somewhat germane to the bill which is now pending before the Senate. However, when we seek to amend a bill, we must amend it by line, page, and section.

We have studied in considerable detail the word which has come from the committee by means of the press and by conversations. All I say is that our amendments are not available at this time, although I hoped they would be, simply because we did not have the bill before us. I am sure the Senator will agree with me that that is a plausible position.

Mr. KERR. It is a plausible position, but I wish to congratulate the Senator from Minnesota upon having 6, 8, 10, 12, or 15 amendments ready for a bill, before it came from the committee, which he could hardly have done unless he had some knowledge from some source of what was in the bill, and some knowledge from some source of the provisions which it is his purpose to amend, and with reference to which the amendments were prepared before the bill appeared on the floor of the Senate.

Mr. HUMPHREY. Mr. President, I wish to thank the Senator for his faith and trust in me, as evidenced by the observations he has made.

Of course, the tax bill is not one of the best-kept secrets in the country. We have read in the press what the committee was doing with the bill; and we have suggestions as to possible alterations, in the nature of improvements in the bill.

I only say that when we have before us a measure which we have had less than 24 hours to discuss, it seems to me that such an arrangement discourages the kind of critical analysis which a measure of this kind should have. Certainly I cannot pose as an oracle of information on these matters. I have spent approximately 2 months in arduous labor preparing myself for this moment on the floor of the Senate, and I know I have had to sacrifice time from other duties. All I say is that other Senators may not have had that much time in which to look into the bill. I think it is important that we have 2 or 3 days in which to do so. I certainly protest against having the Senate take up this measure within less than 24 hours after it has been reported by the committee.

Mr. HOLLAND. Mr. President, will the Senator yield?

Mr. HUMPHREY. I yield.

Mr. HOLLAND. I was concerned to note in the press, and I hope that particular press release was not well-found-

ed, a statement to the effect that the Senator from Minnesota contemplated offering an amendment which would do away with the split-income provision of the present tax law, by means of which the citizens of States which are not themselves under the community-property law are given equality of tax treatment as compared with those States and the citizens of those States which do have community-property laws.

My purpose in rising now is to ask the distinguished Senator whether it is his intention to offer an amendment destroying the split-income provisions of the present tax law.

Mr. HUMPHREY. Mr. President, I wish to assure the Senator from Florida that there will be no amendment offered by me to destroy the split-income provisions, but there will be a proposal to remove the benefits of the split-income provisions. I think the Senator from Florida will find the discussion of that matter very interesting, and I hope he will remain in the Chamber to hear me, because I intend to give some time to a discussion of what I consider to be the inequities which are involved in the income-splitting device which was placed in the tax law in 1948, and I intend to show what can be done in connection with the pending revenue bill in order properly to raise revenue on an equitable basis.

However, I assure the Senator that there is no intention on my part in any way to injure the so-called community-property States and their community-property laws, many which have been repealed since 1948; but I will talk about and I will try to explain to the Senate, for what I think are primarily purposes of information, the benefits of the split-income law and who receive the benefits of that law. I wish to say that when the American people find out who now receive the benefits of the split-income provisions they will have a different idea about income splitting and the benefits derived therefrom.

Mr. President, I should like to proceed now with my remarks, because I have them fairly well prepared and carefully documented, and I believe they may be of some help to other Members of the Senate in considering this bill.

Mr. HOLLAND. I thank the Senator. If he will permit me to do so, I should like to make a brief observation at this time. Of course I shall listen with great interest to what he will have to say. However, I do hope that no amendment which he proposes will tend to restore the old situation under which most of the married couples in the United States were treated unfairly, in this field of Federal income taxation, as compared with the married couples in the community-property States.

Mr. HUMPHREY. The observation the Senator from Florida has made is one which needed to be made. I do not think anyone with a sense of equity in his heart would wish to restore the inequity which existed, and I shall have no part of that, I assure the Senator.

Mr. KERR. Mr. President, will the Senator yield to me for one further little foray?

Mr. HUMPHREY. I am always glad to yield to the Senator from Oklahoma.

Mr. KERR. Did I correctly understand the Senator from Minnesota to say that when the American people find out who are receiving the benefit of the split-income provisions of the law, they will be disappointed or surprised or discouraged or shocked?

Mr. HUMPHREY. I think they would be interested.

Mr. KERR. Does the Senator from Minnesota intimate that anyone other than the American people receive the benefits of the split-income provision?

Mr. HUMPHREY. Indeed I do not. Of course, the Senator from Oklahoma knows that some American people receive the benefits of the split-income provision, just as some American people have been engaged in certain nefarious activities, but not all the American people have been engaged in them, nor do they gain from income-splitting.

Mr. KERR. The Senator from Minnesota realizes, does he not, that the split-income provision is available to every husband and wife?

Mr. HUMPHREY. Yes; and that kind of equality is something like the equality of which Anatole France spoke, when he said that the rich and the poor alike can sleep under a bridge.

Mr. KERR. Does the Senator mean that the husband and the wife can sleep in the same bed?

Mr. HUMPHREY. I wish to keep away from marital problems.

Mr. KERR. Does the Senator from Minnesota regard that as a marital problem?

Mr. HUMPHREY. I do not know about that; but it could be.

Mr. President, the pending tax bill, House bill 4473, which the Finance Committee has reported to the Senate, is, as I have said, one of the most important pieces of proposed legislation to come before this body during this eventful year.

Of course, I pay my respects and my compliments to the chairman of the Finance Committee and to the other members of the committee for the tremendous amount of work they have undertaken and for the many hours they have devoted to that work.

Mr. President, an adequate tax bill is vitally needed in order to pay for the appropriations which the Congress has voted. After all, when we speak of appropriations and expenditures, we are not dealing with theoretical figures of expenditures at this time. The major appropriation bills have passed both Houses of Congress; and even though some changes in them will be made in conference, we know that the total amounts of the appropriations will be very large. The appropriations for the present fiscal year will amount to approximately ninety-four billion or ninety-five billion dollars.

Mr. DOUGLAS. Mr. President, will the Senator yield?

Mr. HUMPHREY. I yield.

Mr. DOUGLAS. The figure stated by the Senator from Minnesota is a minimum, based on the bills already passed by the Senate. After the deficiency bills are added, the total will be raised above the total of \$94,950,000,000.

Mr. HUMPHREY. The Senator is absolutely correct.

Mr. MILLIKIN. Mr. President, will the Senator yield?

Mr. HUMPHREY. Oh, yes; I yield.

Mr. MILLIKIN. I wish to know whether the Senator said whether estimated expenditures or appropriations will amount to that much?

Mr. HUMPHREY. I referred to the appropriations. I am glad the Senator has made that clarification.

Mr. President, not all of this sum will be spent this year, however. For the current fiscal year which will end June 30, 1952, expenditures will be approximately \$70,000,000,000, insofar as we can now foresee.

Mr. DOUGLAS. Mr. President, will the Senator yield?

Mr. HUMPHREY. I yield.

Mr. DOUGLAS. That amount is a minimum figure; is it not?

Mr. HUMPHREY. That is correct.

Mr. DOUGLAS. The \$70,000,000,000 figure does not fully take account of additional expenditures for air bases or for the expenditures of the Korean War, if it should last beyond the 30th of December, or for pay increases which Congress is providing and which will amount to three-quarters of a billion dollars, and possibly more, if the wage employees are included; nor does that figure include the \$480,000,000 asked for the hydrogen bomb plant, nor does it include, I believe, the probable expenditures, in excess of \$500,000,000, for aircraft and fantastic weapons which we have approved. So the estimate the Senator has produced is a most cautious one.

Mr. HUMPHREY. I believe it is.

Mr. DOUGLAS. I believe it excessively cautious. Perhaps it is well to be excessively cautious, Mr. President. I may not be so cautious as is the Senator from Minnesota, but I would say that in my judgment the expenditures would run to a minimum of \$75,000,000,000 during the coming year; and, in addition, we have the problem of the unexpected, which we can always expect.

Mr. HUMPHREY. I thank the Senator for the details he has supplied for the RECORD, particularly in regard to the additional expenditures which are facing the country.

Mr. President, these facts are not theoretical. The facts which have been mentioned are based on the figures of appropriations which the Congress has made. These facts result from the deliberate and mature action taken by the Congress, for which we cannot escape responsibility.

The major appropriation bills have been passed by both Houses, and the huge sums decided upon underwent serious study and debate before we finally acted. We have voted large sums of appropriations for our military defenses, for new weapons, to strengthen the free world, to operate our Government efficiently; and Congress has done all of this by overwhelming votes, both in the Senate and in the House of Representatives. We must now, it seems to me, as responsible Members of the Congress, seek to raise the money with which to pay the bills we have incurred, at least this

year. I realize that off in the distant future there may be a different problem, but at least in the beginning of our defense program for this year, fiscal year 1952, we should do all we can to put our program on a pay-as-you-go basis.

Mr. DOUGLAS. Mr. President, will the Senator from Minnesota yield?

Mr. HUMPHREY. I yield to the Senator from Illinois.

Mr. DOUGLAS. Would the Senator from Minnesota make an estimate of the probable expenditures for the fiscal 1952-53?

Mr. HUMPHREY. We can only guess, but the Budget Bureau tells me they will run between eighty and ninety billion dollars.

Mr. DOUGLAS. That they will run between eighty and ninety billion dollars?

Mr. HUMPHREY. Yes. There is a big gap between the two, and I would say \$80,000,000,000 is very conservative, but I want to be conservative in these figures.

Mr. MILLIKIN. Mr. President, will the Senator from Minnesota yield for a question?

Mr. HUMPHREY. I yield to the Senator from Colorado.

Mr. MILLIKIN. Does the Senator mean the figure for fiscal 1953?

Mr. HUMPHREY. Yes; for fiscal 1953.

Mr. MILLIKIN. What is the figure?

Mr. HUMPHREY. I said it is a projected estimate by the Bureau of the Budget that there will be expenditures, or appropriations, of \$80,000,000,000.

Mr. DOUGLAS. And possibly more?

Mr. HUMPHREY. And possibly more; but I have been conservative, I think.

Mr. MILLIKIN. Do I correctly understand that the distinguished Senator from Illinois estimated expenditures at about \$90,000,000,000?

Mr. DOUGLAS. I said possibly \$90,000,000,000.

Mr. MILLIKIN. Oh, yes; possibly \$90,000,000,000. The general tendency of expenditures is to go up.

Mr. HUMPHREY. That is correct.

Mr. DOUGLAS. Not by design, but by necessity.

Mr. MILLIKIN. Perhaps by design, and perhaps by necessity. It is unnecessary to separate the two. It is an estimate, I take it. The Senator's estimate is of \$80,000,000,000 sure, and possibly \$90,000,000,000 for fiscal 1953. What is the estimate of the Senator from Minnesota for fiscal 1953?

Mr. HUMPHREY. I said I would be very conservative about it, but I said we could look forward to a minimum expenditure of \$80,000,000,000 for fiscal 1953.

Mr. MILLIKIN. The Senator has no heart in thinking it could be held to \$80,000,000,000; has he?

Mr. HUMPHREY. No. I think it will be more.

Mr. MILLIKIN. It will be more?

Mr. HUMPHREY. I think it will be. I am not positive it will be more, but what I am trying to point out in this part of my remarks is that we at least have to look forward to this projected

estimate, which is \$80,000,000,000, and it may go to \$90,000,000,000, though I hope it will not.

Mr. MILLIKIN. Taking into consideration the factors mentioned by the distinguished Senator from Illinois, which are not represented in the estimate of \$39,000,000,000 for military expenditures alone, he also mentioned four or five additional factors, including possibilities, which always mature, of additional supplements?

Mr. HUMPHREY. That is correct.

Mr. MILLIKIN. What is the Senator's estimate of expenditures for fiscal 1952?

Mr. HUMPHREY. It is my feeling, and I have said, that our expenditures for fiscal 1952—and I repeat "expenditures" now—will be a minimum of \$70,000,000,000.

Mr. MILLIKIN. The figure could be \$80,000,000,000?

Mr. HUMPHREY. The Senator from Illinois says he thinks the expenditures will amount to \$75,000,000,000; and I would say that, from the prospects now, that would be a reasonable ceiling.

Mr. MILLIKIN. But the distinguished Senator would not regard the estimate of the distinguished Senator from Illinois as fantastic, would he?

Mr. HUMPHREY. I surely would not.

Mr. MILLIKIN. It could easily happen, could it not?

Mr. HUMPHREY. It surely could.

Mr. MILLIKIN. It might even go beyond, might it not?

Mr. HUMPHREY. I think the Senator from Colorado is correct, that it may go even further.

Mr. MILLIKIN. In other words, the real expenditures for fiscal 1952 will be governed by the rate of spending.

Mr. HUMPHREY. The Senator is correct.

Mr. MILLIKIN. And if the rate of spending should accelerate, the total can be more than many of the estimates we have heard. If the rate of expenditure does not accelerate as much as some people think, it could be less. But in the meantime we have coming all these afterthoughts in the way of new programs and new supplementals, which will have some effect on the expenditures in fiscal 1952.

Mr. HUMPHREY. I thank the Senator. I merely want to make my position clear to him, because I know that his comments in these colloquies are fruitful and constructive, and I also pay great tribute to the work of the Senator from Colorado. What I have tried to do is to keep the figures as conservative as I can, because from my point of view—and I have a point of view, as the Senator has—I do not think it is good in undertaking to judge this tax bill to try to exaggerate the appropriations or the expenditures, so as to show by such exaggeration a greater deficit. In other words, I want to lean over backward to be conservative in these figures, to minimize what I would project as the deficit for fiscal 1952.

Mr. DOUGLAS. Mr. President, will the Senator yield?

Mr. HUMPHREY. I yield to the Senator from Illinois.

Mr. DOUGLAS. If the Senator would permit me to make a comment, I think the Senator from Minnesota is leaning so far over backward in his figures that he has a very dangerous curvature of the spine.

Mr. HUMPHREY. The Senator from Minnesota will straighten up, with the help of the distinguished Senator from Illinois, when he buttresses these figures.

Mr. GEORGE. Mr. President, will the Senator yield for a question?

Mr. HUMPHREY. I am happy to yield to the distinguished Senator from Georgia.

Mr. GEORGE. I desire to make an inquiry, and ask that the Senator make the point clear in his argument. Is he talking about the actual cash expenditures by June 30, 1952?

Mr. HUMPHREY. Yes.

Mr. GEORGE. Or is the Senator talking about appropriations.

Mr. HUMPHREY. I am talking about cash expenditures, not about appropriation.

Mr. GEORGE. And the Senator's estimate is what?

Mr. HUMPHREY. Seventy billion dollars cash expenditures.

Mr. GEORGE. That is, cash expenditures by June 30 next?

Mr. HUMPHREY. That is correct.

Mr. GEORGE. And perhaps more?

Mr. HUMPHREY. And perhaps more.

Mr. GEORGE. I understand. The President has never estimated any such cash expenditure as that, has he?

Mr. HUMPHREY. The last figure I saw from the Bureau of the Budget, which is the arm of the President's Office, was \$68,400,000,000 as the estimated expenditures.

Mr. GEORGE. That is the estimate of expenditures, is it?

Mr. HUMPHREY. That is the estimate of expenditures. But, since that time—

Mr. GEORGE. Oh, yes; there have been appropriations. I want the Senator to distinguish between appropriations and expenditures.

Mr. HUMPHREY. That should be done.

Mr. GEORGE. I want to ask the Senator now this very pertinent question: Does he anticipate that expenditures will exceed receipts by the end of fiscal 1952?

Mr. HUMPHREY. I anticipate that expenditures will, of course, exceed receipts, if we do not pass a tax bill. I estimate that expenditures will exceed receipts if the tax bill we pass does not have greater revenue-raising capacity than the pending tax bill.

Mr. GEORGE. Or the House bill?

Mr. HUMPHREY. Or the House bill.

Mr. GEORGE. Very well, let us have that clear.

Mr. HUMPHREY. The House bill, of course, comes closer, but both bills will be short.

Mr. GEORGE. I merely wished to see what the Senator from Minnesota had in mind, because I remind him that, even with the foreign aid expenditures, there is a carry-over balance, at the beginning of this fiscal year, of approximately \$5,000,000,000, and yet, we have been asked to appropriate and we un-

doubtedly shall, another \$7,500,000,000 or \$8,000,000,000.

There is a carry-over for defense at the beginning of this fiscal year of around \$40,000,000,000, and yet we have in this body, presumably upon the President's own recommendations, passed an additional defense bill authorizing the appropriation of approximately \$60,000,000,000. It has not yet been agreed upon, of course, by the conference.

Mr. HUMPHREY. I appreciate the helpfulness of the Senator from Georgia, because he has assisted in developing the point that there is a great discrepancy between the appropriation figure and the cash expenditure figure. I also agree with him regarding the so-called cash balances which are available for defense, but I think the Senator well knows that it is just now that the goods are being delivered. These cash balances are committed, they are contracted, and as the goods are delivered, the cash must be paid out, and it is that problem we are facing at the present time.

Mr. GEORGE. I am familiar with the reasons assigned. I am also familiar with what to me is a much more pertinent reason, one which goes to the bottom of the problem, namely, that we are constantly asked to make these large appropriations in the face of heavy unexpended balances, for the purpose of tying the hands of the Congress so that the Congress cannot look at the picture as it actually is.

That has nothing to do with the merits of what the Senator from Minnesota is discussing, but what I am trying to say to him is that I fear he is wholly wrong in his estimate of cash expenditures by June 30 of next year.

Mr. HUMPHREY. I wish to say at this point that the Senator from Illinois, has some figures which he has checked this morning. We went into this matter quite carefully, and there may be an honest difference of opinion. If there is, I think we should clarify the record. What I want is the truth, and if the Senator from Illinois can help us gain it, I shall be grateful.

Mr. DOUGLAS. The Assistant Director of the Budget testified some months ago before the Finance Committee, and produced a table, which appears on page 149 of the hearings, estimating expenditures of \$68,400,000,000, with an item of \$42,000,000,000 for the military functions of the Defense Department and the military segment of the foreign-aid program. Yesterday I telephoned Mr. McNeil, the Comptroller of the Defense Department, and he informed me that the Defense Department figures should be raised from \$42,000,000,000 to \$44,000,000,000, because of accelerated delivery schedules; thus making a total of \$70,400,000,000. This does not include all the items I mentioned in my earlier questions. So I think the testimony of Mr. McNeil bears out the statement of the Senator from Minnesota.

Mr. HUMPHREY. I thank the Senator from Illinois.

Mr. MILLIKIN. Mr. President, will the Senator yield?

Mr. HUMPHREY. I am happy to yield.

Mr. MILLIKIN. I should like to add that there is a total of some \$3,000,000,000 accidental surplus for the fiscal year 1951 which is also available for general revenue purposes.

Mr. HUMPHREY. Yes. I should like to add to that cheery note that since July 1, 1951, we have been running at a deficit rate of approximately seven and one-half billion dollars.

Mr. MILLIKIN. That is in a heavy expenditure period. The July period is a hard period on which to hang anything definite.

Mr. DOUGLAS. Mr. President, will the Senator from Minnesota further yield?

Mr. HUMPHREY. I yield.

Mr. DOUGLAS. Is it not true that the surplus in the Treasury was largely due to the prompt action on tax matters which the Senate took last year, and also to the tax on excess profits, which largely came about as a result of a drive from the floor by the Senator from Minnesota—

Mr. HUMPHREY. The Senator from Wyoming [Mr. O'MAHONEY].

Mr. DOUGLAS. Led by the Senator from Wyoming and the Senator from Texas.

Mr. GEORGE. Mr. President, may I interrupt to advise the Senator from Illinois that there has been no collection of the excess-profits taxes. Returns have not yet been filed. We have extended the time in which the returns may be filed until some date in November. Actually, what has happened and what will happen again is that there will not be expended the full amount made available for spending by the appropriations.

Mr. DOUGLAS. Some of the excess-profits taxes were paid in the first and second quarterly installments of this year. Tax returns may not have been filed, but taxes, based on estimates, were paid, nevertheless. The point which I was trying to make, if the Senator from Minnesota will yield further—

Mr. HUMPHREY. I yield.

Mr. DOUGLAS. The point which I was trying to make is that the increase in revenue which we have obtained, which brought us out of the red into the black within the past year, came about in part, at least, from a movement on the floor of the Senate similar to the one which the Senator from Minnesota is now initiating.

Mr. MILLIKIN. Mr. President, will the Senator from Minnesota yield?

Mr. HUMPHREY. I yield, but I should like to preserve the continuity of my remarks.

Mr. MILLIKIN. I would suggest to the Senator from Illinois that the two major causes for the accidental surplus were, first, an underestimate of revenues, and, second, an underestimate of the speed of our spending. Those are the major causes which produced the accidental surplus.

As to the suggestion of the Senator from Illinois that the Senator from Minnesota, among other Senators, was a leader in connection with the excess-profits tax, let me say that the leaders for the excess-profits legislation which became law, were the distinguished Senator from Georgia [Mr. GEORGE] and,

may the Lord be lenient, the junior Senator from Colorado. The action of the distinguished Senator from Minnesota was well meant, but he was not quite prepared, and he will never be prepared, to write a good excess-profits-tax bill. That is beyond the talents of anyone.

Mr. DOUGLAS. I only meant to say that the Senator from Minnesota and other Senators were quite active in the movement. They helped to supply the intellectual steam, and the distinguished Senator from Colorado helped to work out the bill. That was a very happy combination.

Mr. MILLIKIN. I would not disparage the part which the distinguished Senator from Minnesota played in the movement.

Mr. HUMPHREY. I would disparage my own efforts.

Mr. MILLIKIN. I am making my own apologies, if they are required, for my own part in the matter.

Mr. HUMPHREY. I should like to say that the Senator's humility and modesty almost overwhelm me. He has paid me too much credit for the excess-profits-tax fight. I was only one of the soldiers in the field. There were generals and a few privates who cast a vote here and there. They helped the movement along. But the kind words which the Senator has used give me a good start for the day.

Mr. MILLIKIN. The distinguished Senator from Minnesota is, at times, a regiment.

Mr. HUMPHREY. I thank the Senator.

Mr. President, I was referring to the bills which we have incurred and which we must now seek to raise the money to pay. But I would express the opinion that even though the cash expenditures for this year may be less than those estimated by the junior Senator from Minnesota, it is patently clear that the cash expenditures for next year will be going up sharply. I merely want to get a determination in the Congress now. Are we entering upon another period of deficit financing, or are we making a sincere and determined effort to keep on a pay-as-you-go basis? I think we should make that determination. Once we have made it, we may be able properly to adjust our economy. I shall make further comment on that as I go along.

In deciding on the amount of our national bill I believe the American people agree that the expenditures we are making are necessary. I think very few of us are receiving letters objecting to the rearmament on which this country has embarked. The people want the Nation to be defended, and they know it is costly.

Communist aggression can be halted in any one of three ways. The first is to stop the aggressor if he undertakes to attack, as he has been stopped in Korea.

The second way is to help to build up the strength of our allies.

Third, we must show our determination to protect freedom, not only here at home, but all over the world, wherever it may be attacked.

The production program is a large and costly undertaking. It is expensive. It requires the diversion of a large propor-

tion of human and physical means from the production of peacetime needs to the production of arms and munitions. It means that there will be fewer automobiles, television sets, and radios, and our farmers will have to work longer hours.

But the genius of the American people to produce more in times of great stress has been proved many times. It has always been underrated. I desire to emphasize that point. It has always been underrated, but it has been proved many, many times. I believe we can achieve the production goals required to complete the military program and also to lay the ground work for increasing living standards not only in this country, but also in the rest of the world. We need only to harness some of the tremendous potentials which are still untapped here and abroad to realize these objectives.

Mr. President, we must remember that the cold war is not a temporary phenomenon, and we must plan accordingly. The cold war is one of the practical political facts of our generation. I emphasize this point in my remarks, because we are not talking about, insofar as we know, a cold war or an international situation that looks like it is going to be over next year. We are apparently planning for the long pull. And, of course, that makes it all the more important that we have a sound economy, a fair and equitable tax program, and that every measure be taken that is humanly possible, to keep the American economy a going concern.

At present we are having a period during which the so-called armistice talks in Korea have been interrupted. Attempts are being made, however, to have them resumed.

Mr. President, we cannot arm quickly to meet one threat and then disarm as soon as it has been averted. Such a course of action is wasteful and inefficient. More important, if we relax our guard even once, we are likely to lose the fight against the enemies of freedom.

The fact that the cold war is likely to last a long time makes it imperative that we plan wisely, from an economic as well as military standpoint. Our economic system must be based on a solid foundation if we are to succeed in our resolve to stop communism. A part of this foundation must be a strong and equitable tax system which will be adequate to pay the cost of rearmament.

Now that the congressional action on appropriations is completed, it is clear, as I have pointed out in my remarks, that we must add substantially to the strength of our revenue system. At least that is clear to the Senator from Minnesota. The citizens of this country are willing to undertake to pay for their defense so long as the tax burden is distributed fairly and in accordance with the well-known and announced principle of our Government, the principle of the ability to pay.

The tax structure is a complicated mechanism, of necessity, and I think that the Senator from Colorado [Mr. MILLIKIN] properly has said that no one really understands completely and thor-

oughly the full implications of the tax bill which is now pending before the Senate. Whatever the provisions of a tax bill, there will always be critics of them. I assure the Senator from Colorado and the Senator from Georgia that my criticism, if it is to be interpreted as such, is of a constructive nature; that it is made in a spirit of admiration for the men who have prepared this bill, and that the criticism is made in an attempt to be helpful.

Most of the technical provisions of the tax laws are not understood by the average citizen. In fact, I think it is fair to say that they are not understood by the overwhelming majority of those in public office. The task before the Congress in distributing the burden fairly among individuals and corporations is therefore especially important. As Members of Congress it is our obligation to our constituents to design tax legislation in the fairest manner possible.

Mr. President, I say now that if nothing more comes out of the effort some of us are going to make in discussing the tax bill, than merely to bring the question of taxation to the forefront, and to explain some of the intricate details of the tax bill, how the tax laws are to be applied, and so forth, I shall be a very happy person.

To be perfectly candid, I am not too optimistic as to the success we will have with respect to some of our amendments, but they will be offered in the process of education in economics, the process of citizen education, which is imperative particularly when taxation takes such a tremendous share of the national income. It then becomes imperative that every citizen understand how taxation works, how the tax revenue is extracted, from whom it is extracted, and what portion is being paid by the different groups in the country. We should approach the problem of taxation, then, on the basis of one simple principle: our tax system should be strong enough to meet our commitments, and it should distribute the burden fairly among the people. The term "fairly" is always open to value judgment. I am attempting to give my value judgment of what I think to be a fair distribution of the tax burden.

The legislation which is now before the Senate, in my humble opinion, does not meet the specifications in this simple test. First, I do not believe it will raise sufficient revenue to balance the budget, and will, therefore, through deficit financing, invite inflation. Moreover, the money the tax bill does raise is, in my humble opinion, distributed unfairly. The tax burden on corporations, whose profits have soared to the \$50,000,000,000 level, has been cut by three-quarters of a billion dollars below the House bill. The taxes on individuals with incomes above \$5,000—I repeat, above \$5,000—have been cut by \$351,000,000 below the House bill.

Mr. MILLIKIN. Mr. President, will the Senator yield?

The PRESIDING OFFICER (Mr. KERR in the chair). Does the Senator from Minnesota yield to the Senator from Colorado?

Mr. HUMPHREY. Let me complete the next sentence, and I shall be glad to yield. Furthermore, some of the most important loophole-closing provisions adopted by the House have been stricken from the bill, and I believe a number of new loopholes have been added, both in the House bill and in the Senate version. The many excess-profits-tax amendments which we are asked to adopt to relieve hardship give at least \$120,000,000 of relief, in most cases where it is unwarranted.

I now yield to the Senator from Colorado.

Mr. MILLIKIN. Will the Senator please advise us whether the excess-profits tax and the corporation tax generally, or one or the other, or both, are greater or less under the present law than under the recommendations of the Senate Finance Committee?

Mr. HUMPHREY. I am speaking about the corporation-tax structure, the base tax and the surtax.

Mr. MILLIKIN. Is the tax proposed for corporations by the Senate Finance Committee greater or less than under the present law?

Mr. HUMPHREY. It is greater than under the present law, but less than under the House provisions.

Mr. MILLIKIN. Of course, the Senator understands, that, with all due respect to the House, it does not necessarily provide an infallible standard of measuring what the tax should be.

Mr. HUMPHREY. Yes. I merely point out that there is one measurement of what should be an appropriate tax—I say one, but we shall discuss it from many points. I do not believe we should rely strictly on the verdict of the House Ways and Means Committee or the House. I surely concur in that. But I think it has some importance in judging the merits of any particular proposal.

Mr. MILLIKIN. I would not criticize the House as much for its bill. I think it is a factor in this matter which is of great importance. When we are talking about revenue the question includes: "How much more revenue are we going to raise than is being raised at the present time?" The real basis is: "How will that which we propose be felt in the pocket-book?"

Mr. HUMPHREY. The Senator from Colorado, of course, has stated what is an obvious truth, that what we are basically interested in is how much revenue will a particular bill raise; not whether one bill or the other is right. However, I think we ought to be interested in how we raise it, and whether we raise it appropriately in terms of ability to carry the burden. That is what the Senator from Minnesota is directing his remarks to.

Mr. MILLIKIN. I have no objection to that kind of dissertation. I think we can get ourselves rather confused and plunge ourselves into abstractions when we fail to keep in mind that which is raised under present legislation and that which is proposed by the Senate Finance Committee bill.

Mr. HUMPHREY. I am going to take care of that in some detail as I proceed.

Few people can comprehend the broad scope of the loophole-opening provisions

included in the bill. Nevertheless, I believe that it is the duty of the Senate to scrutinize these provisions carefully and to understand their implications before we pass final judgment. My objective, as I have said, in bringing these matters to the attention of the Senate, is to familiarize the Members of the Senate, by whatever means or information I can give, with the details which they might overlook in the rush to complete action on this one remaining piece of major legislation during this session. When the tax system already raises more than \$60,000,000,000 a year and when we are asking the taxpayers to pay from \$5,000,000,000 to \$7,000,000,000 more, we must in good conscience examine carefully the make-up of the additional burden.

It was the early plea of the Senator from Minnesota that there be a careful analysis. An analysis of the bill before the Senate will demonstrate that it is defective, as I see it, in three respects.

First, the reductions made below the House bill will go largely to corporations whose swollen profits are ample proof that they are able to pay the additional taxes imposed by the House.

Second, the bill does not close enough loopholes in the present law.

Third, it extends what I believe to be unwarranted tax privileges, and opens new loopholes which will be available to relatively few people at the expense of the many.

Those three defects I think I can document.

I. COMPARISON OF HOUSE AND SENATE BILLS

First, let us compare the House bill and the Senate bill. According to the report by the Finance Committee on House bill 4473, the House bill is estimated to collect in a full year of operation about \$7,200,000,000 of additional revenue. This amount would be obtained from the following sources: \$2,800,000,000 from changes in the individual income tax; \$2,900,000,000 from changes in the corporation income and excess-profits tax; \$1,300,000,000 from increases and revisions in the excise taxes; and a net increase of \$245,000,000 from structural changes within the law, changes in the body of the law itself.

Mr. DOUGLAS. Mr. President, will the Senator yield?

Mr. HUMPHREY. I yield.

Mr. DOUGLAS. The figures which the Senator has read, of course, are accurate. However, is it not true that they apply only to a full year of operation, when the tax is completely in effect?

Mr. HUMPHREY. That is correct.

Mr. DOUGLAS. Is it not true that for the fiscal year 1952 the estimate of the Senate committee, on page 2 of its report, is that the total yield of the House bill would have been only \$4,908,000,000, or roughly \$2,200,000,000 less than the amount to be yielded by a full year's taxes?

Mr. HUMPHREY. I think that is a fair estimate. I have used those figures before. The Senator is pointing out that, because of the lateness of the hour in the passage of the bill—responsibility

for which I lay at no one's door, but it is a fact that we are late in passing the bill—the revenue which will come from any new tax bill this year will not be what the over-all estimate is for a full year of operation.

For example, the Senate bill, estimated to raise \$5,500,000,000, according to the committee's own report, would raise this fiscal year \$2,700,000,000. The House bill would raise about \$4,900,000,000 this year.

A. CORPORATION INCOME TAXES

As revised and amended by the Senate Finance Committee, the bill would raise only \$5,500,000,000. Of this amount, less than \$2,400,000,000 would be raised from the individual income tax, or almost half a billion less than under the House bill; also, \$2,100,000,000 would be raised from corporation taxes, or almost \$800,000,000 less than under the House bill; and \$1,300,000,000 from excise taxes, or approximately the same increase which the House bill provides in this area.

Finally, the so-called structural changes—changes in the actual law—in the Finance Committee's bill would actually reduce revenues by \$390,000,000, whereas the House bill would raise them by \$245,000,000, making a difference of \$635,000,000 in what I call structural-change revenues.

Let me repeat those differences: One-half a billion dollars of the reduction in the yield below the House bill will go to individuals; almost \$800,000,000 will go to corporations; and \$635,000,000 will be lost because of the failure to close loopholes, as recommended by the House, and because of the addition of new loopholes in the tax laws.

I wonder whether Senators realize that, of the total reduction of \$1,700,000,000, \$128,000,000 will go to families with incomes under \$5,000 a year—and that includes the vast majority of the taxpayers of the country.

Mr. DOUGLAS. Mr. President, will the Senator yield?

Mr. HUMPHREY. I yield.

Mr. DOUGLAS. I have made a hasty computation. It seems to me that only 8 percent of the total reduction goes to families with incomes below \$5,000.

Mr. HUMPHREY. The remaining \$1,565,000,000 will go to corporations and individuals in the high-income brackets, who also can take advantage of existing loopholes and the new loopholes which were added.

Mr. MILLIKIN. Mr. President, will the Senator yield?

Mr. HUMPHREY. I yield.

Mr. MILLIKIN. Will the distinguished Senator be good enough to advise the Senate as to the percentage of national income which falls in the brackets of \$5,000 and under, and what percentage falls in the brackets over \$5,000?

Mr. HUMPHREY. I shall obtain that information for the Senator. I know that 80 percent of all taxpayers have incomes of less than \$5,000 a year.

Mr. MILLIKIN. Does either the House bill or the Senate bill assess 80 percent of the cost of the bill to those having 80 percent of the income?

Mr. HUMPHREY. I do not believe I get that question.

Mr. MILLIKIN. Of course, the Senator gets it.

Mr. HUMPHREY. I am sorry, but I do not.

Mr. MILLIKIN. Those who have incomes of \$5,000 a year or less have about 80 percent of the income. What is the percentage of the increase in tax which those in that category will pay?

Mr. HUMPHREY. Let me say to the Senator now that the group under \$5,000 a year are already the main excise-tax payers. I shall reveal some figures to show that a man with an income of \$1,000 a year pays more taxes percentage-wise than anyone with an income up to \$7,500. If the Senator is trying to intimate that it is the \$5,000 group which has the bulk of the income, what he is saying is that the \$5,000-a-year group represents the bulk of the American people.

Mr. MILLIKIN. I am not arguing. I do not think the Senator can make the argument he makes with complete fairness—which I know he wishes to observe—unless he states the percentage of the national income in the groups to which he relates his theory.

Mr. HUMPHREY. I have that information, and I will try to get it for the Senator before the close of this debate.

Mr. MILLIKIN. In connection with the increases it should be pointed out how the burden of increase is distributed. If the Senator has any difficulty with that problem, the information is set forth in the report. It can be easily referred to.

Mr. HUMPHREY. Persons with incomes of from \$3,000 to \$7,500 had 54 percent of the total national income. Those persons who had \$3,000 income or less had 15 percent of the total national income. So if we add 15 percent to 54 percent, we get 69 percent. In other words, all the individuals in the United States who have incomes of \$7,500 a year or less get 69 percent of the total national income.

Mr. MILLIKIN. Of course the increase in taxes should bear some relationship to that fact. I am suggesting to the Senator that he now advise us what percentage of the increase is distributed to the low-income category, and what percentage to those above.

Mr. HUMPHREY. I think that is very easy. The Senate bill places an 11 percent super-tax on the present tax rate for every individual who pays a tax until we get to the high brackets, where there is a ceiling.

Mr. MILLIKIN. That does not answer my question. What percentage of the increase in taxes proposed by the House bill, if the Senator wishes, or proposed by the Senate bill, if the Senator wishes, falls upon those with incomes of \$5,000 or less, and what percentage falls on those with incomes above that figure? That is all I am trying to ascertain.

Mr. HUMPHREY. I do not have that information. I shall try to get it.

Mr. MILLIKIN. I hope the Senator will permit me to interrupt him a little later.

Mr. HUMPHREY. If the information is in the report, that is another reason why we should have an additional day

before beginning consideration of the bill. I have not had an opportunity to look over the report very thoroughly. Will the Senator help me by furnishing the citation?

Mr. MILLIKIN. I shall furnish the citation.

Mr. HUMPHREY. I will proceed, and we can come back to that subject when the Senator can give us the material from the report.

I was pointing out certain differences, which I think must be stated again.

The bulk of the \$1,700,000,000 decrease from the House bill figures goes to corporations and to individuals in high-income brackets. One hundred twenty-eight million dollars will go to families with incomes below \$5,000. In view of the one-sided nature of the reductions made in the House bill—

Mr. DOUGLAS. Mr. President, will the Senator yield?

Mr. HUMPHREY. I yield.

Mr. DOUGLAS. If the total reduction is \$1,700,000,000, and only \$128,000,000 goes to families with incomes below \$5,000, it follows, I take it, that about \$1,572,000,000 goes to corporations and to individuals in the high-income brackets.

Mr. HUMPHREY. That is correct. The point of the Senator from Colorado is that the individuals in those brackets are the ones who pay the most, and, therefore, they should get the most back. What he is trying to pin me down on is the percentage of the tax paid by people with incomes of \$5,000 annually or less. The Senator from Minnesota says, of course, that the tax laws are so designed that the low-income group does not pay the bulk of the taxes, even though, because of their numbers, they may have a sizable portion of the total national income. The fact of the matter is that a man with an income of \$5,000 or less, who must support a wife and children, is lucky to be able to pay the rent, much less the tax. It is all a matter of ability to pay which is involved here. The lower-income group pays a sizable portion of the income tax in terms of revenue.

Now let us talk about the corporation income tax for a moment. The reduction in the Senate committee's bill of three-quarters of a billion dollars in the increased corporation taxes provided in the bill as passed by the House comes at a time when corporation profits are at the highest point in history.

Mr. MILLIKIN. Mr. President, will the Senator yield?

Mr. HUMPHREY. Yes.

Mr. MILLIKIN. I should like to suggest a figure. The report does not do so in terms of percentages, and therefore, when I invited the Senator from Minnesota to look at the report to find the percentages, I led him into a blind alley. I would suggest that the percentages are: Those with adjusted gross income of \$5,000 or under receive 56.12 percent of the total of that type of income. Under present law they pay 37.02 percent of the taxes.

Mr. DOUGLAS. Mr. President, will the Senator from Minnesota yield so

that I may address a question to the Senator from Colorado?

Mr. HUMPHREY. Yes.

Mr. MILLIKIN. Under the House bill they would pay 37.12 percent of the taxes. Under the bill proposed by the Senate Finance Committee they would pay 37.32 percent.

Mr. DOUGLAS. When the Senator from Colorado says that the group with incomes under \$5,000 pays 37 percent of the tax, is he referring to Federal income taxes?

Mr. MILLIKIN. I am referring to Federal income taxes.

Mr. DOUGLAS. If we add the local sales taxes and excise taxes, the proportion of the total taxes which they pay would be greatly increased, because the excise taxes, far from being progressive, tend to be regressive, and the same is true of sales taxes, which are not levied on personal services, investments, or rent.

Mr. MILLIKIN. I agree completely with the distinguished Senator from Illinois. I have repeatedly urged more caution in imposing a sales tax or a widely based manufacturers' excise tax, on the ground that we have not yet completed sufficient studies of the total tax burden represented by Federal, State, and local taxes direct and indirect, on people who receive incomes under \$5,000.

Mr. DOUGLAS. Mr. President, I am delighted that the Senator from Colorado is in such hearty agreement with us. I may say that it is an added reason for a progression in income taxes, in order to offset the regression in excise and State sales taxes.

Mr. MILLIKIN. I suggest that it does not follow, if we should determine that the present progression is sufficient, that the amount raised by the bill now pending or the House bill will seriously impair the productive resources of the country. I am delighted to find something on which I can agree with the Senator from Illinois, and I should like to make it into a big thing.

Mr. HUMPHREY. Let us make it a trinity. I join with the Senator in his statement.

Mr. MILLIKIN. I have repeatedly called attention to the fact that we do not have sufficient dependable statistics on which to base a general sales tax or on which to base a manufacturers' broadly based excise tax. One of the reasons is that the progressive tax which we levy on the upper and middle groups, through its being passed down, lands on those who earn under \$5,000. That is why there are concealed taxes. They result from the taxes being passed down.

We had testimony before our committee that a small family having an income of a couple of thousand dollars had a tax bill to pay of \$750, and that \$400 was the indirect tax, which necessarily had to be passed down from the taxes put on the middle and upper groups. So I would ask the Senator to give a little consideration to that fact also.

Mr. HUMPHREY. I am giving it deep consideration. I wish to remind my friend from Colorado, however, that when we talk about percentages and how great a percentage is paid by a particular

income group, we must also consider the status of that income group in the economy.

Mr. MILLIKIN. I agree entirely with the Senator from Minnesota.

Mr. HUMPHREY. I agree that all too often the hidden taxes are passed on.

Mr. MILLIKIN. It is inevitable that they are passed on to the great consumers, and the great consumers are those who make \$5,000 or less a year. They are bound to be passed on.

Mr. HUMPHREY. I have read a number of editorials headed "Corporations do not pay taxes; you do." The implication is that taxes are passed down to the individuals, and that corporations do not pay any taxes. A corporation supposedly does not pass down every item. There is apparently an accruing of profit in a corporation, and therefore it is possible for them to pay some taxes instead of passing all of them on—so say the editorials.

Mr. MILLIKIN. I will ask the distinguished Senator to check me on this statement. Is it correct to say that whether taxes are passed down or up depends upon the competitive situation of the particular industry?

Mr. HUMPHREY. Indeed it does.

Mr. MILLIKIN. In some industries, where there is a shortage of goods, as contrasted with a plentiful demands for those goods, it is possible to pass on the whole tax and the whole mark-up. In other fields competition may be such that the most the industry can do is to pass on the base tax.

Mr. HUMPHREY. That is a very persuasive and compelling argument for the need of preserving a competitive situation. When an artificial situation comes into being, as when there is a large defense program, in which competition is no longer a factor, controls of the strongest kind are required, so that costs such as taxes are not passed on completely and totally to the consumer.

Mr. DOUGLAS. Mr. President, I do not know whether I should get into a major engagement with my dear friend from Colorado.

Mr. MILLIKIN. Please do.

Mr. DOUGLAS. This should be only a skirmish.

Mr. MILLIKIN. The Senator from Illinois may characterize it as such, but it may grow into a major engagement.

Mr. DOUGLAS. I would prefer to have the major engagement later, and for the present engage only in exchange of shots. In response to the bullet which the Senator from Colorado has sent whizzing by my ear, to the effect that all the corporation taxes are passed on—

Mr. MILLIKIN. I did not say that. I said some are and some are not, depending on the competitive situation.

Mr. DOUGLAS. I may say that in general, since corporation taxes are levied upon profits, and profits accrue after costs, the taxes upon profits do not increase costs, and, therefore, cannot be passed on to the consumer.

It would seem that my friend from Colorado is perpetrating a heresy which was originally perpetrated by David A. Wells, who many years ago was Commissioner of Internal Revenue. He

stated that all taxes were passed on. However, that argument ignores the difference between margins and surpluses. Taxes upon surpluses are not passed on. Taxes upon margins are. Corporation taxes are taxes on surpluses, that is, net profits over and above costs and hence the tax is not shifted. I do not wish to make this exchange a major battle. It is merely an exchange of shots.

Mr. HUMPHREY. I can see a Blücher-type engagement.

Mr. MILLIKIN. I do not want the Senator from Illinois to inject a heresy into the RECORD.

Mr. DOUGLAS. It is the Senator's heresy.

Mr. MILLIKIN. I do not want the Senator to say that I have stated that all taxes are passed on. During an inattentive moment of the Senator from Illinois I went to considerable pains to make it clear that that is not the case. The corporations may not pass them on at all; they may pass them on in full; they may pass them on with the full mark-up; or they may pass them on with only a partial mark-up. The part of the mark-up to be absorbed will depend upon the competitive situation. Have I made myself clear?

Mr. DOUGLAS. Partially so. I may say that we should draw a distinction between corporate taxes based on profits and sales taxes based on prices. Sales taxes are based on prices and are passed on. Excise taxes also tend to be passed on, and often bear heavily on the poorest section of a community. The tax on corporate profits is not generally passed on because it is a tax on surpluses, and it results in lower dividends, which tend to go to the upper-income groups in the community.

Mr. MILLIKIN. Now the distinguished Senator from Illinois falls into a heresy which is very common among certain very highly endowed scholars—the heresy of overgeneralizing. If a manufacturer has to go to the bank to borrow money in order to pay his taxes, he has to pass on the taxes or he has to go broke. The result is that if he remains solvent, he does pass on the taxes. Under such circumstances he cannot pay back his bank loan unless he passes on the taxes; and while passing on the taxes he is apt to pass on some mark-up, and unless he does that, assuming he is not running a philanthropy, he has to go out of business.

Certain corporations may not have to pass on the taxes, but they have to account to their stockholders. It may be said that some corporations are so big that, if they wish to do so, they can absorb all taxes. I do not think it will be found that corporations are absorbing taxes, however. Corporations may reduce their mark-ups, but I do not think it will be found that the corporations are absorbing taxes.

At any rate, the great bulk of the business of the country is not carried on by the flossy type of concern to which the Senator from Illinois refers, but it is carried on by the people who are having a terrible time getting on, and have to borrow money in order to pay their bills and to pay their taxes and to pay for all

the demands that plague humanity. After they borrow from the bank, the banker says to them, "Brother, I have to have this money back on the due date." To obtain the money, in order to pay back the loan, the businessman has to raise the price of the goods he sells.

All of this has been just a little practical lesson in economics, Mr. President.

Mr. DOUGLAS. Mr. President, it is only the last remark the Senator made which brings me to my feet. However, since the Senator from Colorado speaks as though he were an expert—

Mr. MILLIKIN. The Senator from Illinois has the habit of over-reaching; I did not say "expert."

Mr. DOUGLAS. In any case, I wish to point out that the corporation tax is not passed on, because the corporation tax is paid out of profits previously earned.

Mr. MILLIKIN. The corporation tax is paid, regardless of whether there are profits.

Mr. DOUGLAS. The corporation tax is levied only on profits. If there are no profits, there is no tax, and no tax is paid.

Mr. MILLIKIN. The corporation tax has to be paid; and if there are no profits on hand to pay them, it has to be paid with a loan or a mortgage. In any event, it has to be paid. It can be paid out of capital or in other ways.

Mr. DOUGLAS. Let me ask the Senator a question: How can a ghost be taxed?

Mr. MILLIKIN. Capital can be taxed, and it is being taxed.

Mr. DOUGLAS. Profits, not capital, are taxed.

Mr. LEHMAN. Mr. President, will the Senator yield?

The PRESIDING OFFICER (Mr. CLEMENTS in the chair). Does the Senator from Minnesota yield to the Senator from New York?

Mr. HUMPHREY. I yield.

Mr. LEHMAN. It seems to me that the point raised by the Senator from Colorado is fundamental and, I believe, so inaccurate that I think it should be pursued, because I know of no tax, other than minor taxes, which is levied on corporations, except on the profits of corporations.

It may be perfectly true that a tax may have accrued for a past year, and that the corporation does not show a profit during the current year. To that extent the corporation may have to pay a tax which is not being earned currently. However, certainly corporation taxes never accrue—either the normal corporation tax or the surtax—except on profits.

Mr. MILLIKIN. However, from my viewpoint, the corporation and the individual are not supposed to live to pay taxes. The corporation is in business to produce. It has many items from which it may obtain profits, and it has many items from which it may suffer losses. The income tax and the corporation tax items merge themselves into the whole problem. The corporation may have large debts ahead of it, it may have all kinds of obligations which must be met even if there is a taxable profit and there may not be enough left to meet the tax

and also to meet the debt at the bank and to meet other obligations.

Mr. HUMPHREY. Mr. President, finally the Senator from Colorado has brought in something which rather helps in the argument, when he says there may be other areas which constitute cost factors which may make it difficult for the corporation to pay the tax. I think the Senator from Illinois and the Senator from New York have been pointing out that the corporation tax is a tax on profits.

Mr. MILLIKIN. I agree with that completely.

Mr. HUMPHREY. Before we go into any more theorizing or even into the practical aspects of the matter, we should realize that in the first quarter of this year the corporations were operating at a gross profit of \$50,000,000,000.

Mr. MILLIKIN. Not all of them.

Mr. HUMPHREY. I said that was the total figure; and the net profit of corporations in that time was approximately \$20,000,000,000.

Mr. MILLIKIN. Oh, yes; let the Senator give all the generalized figures he wishes to present.

Mr. HUMPHREY. I also wish to point out that if the Senator from Colorado is correct when he says that in the vast majority of instances those who are really taken to the cleaners are the little folks, then I do not know why I should have been so worried in reading the many articles and editorials I have seen which have been to the effect that we are going to destroy the American enterprise system. To judge from what I have been reading, including what I have been reading about this bill, for there has been plenty of attack on it, the corporation tax will drive us into socialism. I have read many articles to that effect.

Obviously, we cannot deal with thousands upon thousands of individual corporations in these matters; we must handle these matters in terms of aggregates and totals. All I say is that, in the main, the tax on corporations, although it is heavy—for the Senate tax rate on corporations is 5 percent on the base and 2-percent surtax—is not going to bankrupt the corporations. The corporation tax voted by the House of Representatives would raise more money than would the corporation tax reported by the Senate committee, but even the heavier tax voted by the House would not bankrupt the corporations. I think that is the nub of the argument.

If a corporation has to borrow money in order to pay its taxes, that means that it made some money once, and it should have sufficient money with which to pay the taxes. After all, the corporation tax is not levied upon nothing.

Mr. MILLIKIN. That depends, obviously, upon the entire composite picture as to the corporation. I wish to suggest to the Senator that the economy of our country consists of the aggregate of separate enterprises, both individual and corporate.

Mr. HUMPHREY. Indeed it does.

Mr. MILLIKIN. When we say to individual corporations and to individuals that they must conduct their affairs on averages and that we who serve in Con-

gress must decide what we do in terms of averages, I say most respectfully that the Senator is in deep error. We must give consideration to the problems of the individual.

Mr. HUMPHREY. Indeed so. I do not want the Senator to misinterpret my remarks. I simply say to the Senator from Colorado, in line with what has been said by the Senator from New York and the Senator from Illinois, that we cannot consider in detail the problems of each corporation which, let us say, is listed on the stock exchange or in a catalog of corporations, and then ask ourselves, "How is this corporation taxed, and how is the tax levied upon it going to affect this corporation, and what is its financial status now, and what was its financial status last year, and what was its financial status the year before that, and does the corporation have any very burdensome obligations?"

Mr. MILLIKIN. Of course not. However, the Senator can easily take into account the number of corporations in the United States and the distribution of profits among them, so that he will have some comprehension of where we must be careful in levying the taxes.

Mr. HUMPHREY. Yes; the Senator is correct.

Mr. MILLIKIN. The profit of a corporation is a composite of many things. What happens to the corporate profit after taxes is also a composite of many things which enter into business judgment. If a corporation uses the profit to expand its business or to increase its inventories, then, if it does not pass on the tax and a fair allowance for profits, it is out of business; and when that time arrives, and the sheriff comes around and taps the owner on the shoulder and says, "Buddy, give me the key to your front door," it will not do to say to the sheriff, "Ah. But look at the fine general averages that Senator HUMPHREY read into the CONGRESSIONAL RECORD."

Mr. HUMPHREY. I am not reading general averages into the RECORD.

Mr. DOUGLAS. Mr. President, will the Senator yield?

Mr. HUMPHREY. I yield.

Mr. DOUGLAS. Let me point out to my good friend, the Senator from Colorado, that no firm goes out of business if it is making appreciable profits. A firm goes out of business only if it incurs losses. The corporation tax is levied, not on losses, but on profits, after they have been earned. So the attempt of the Senator from Colorado to say that an increase in the tax on corporate profits means actual losses, disappoints me.

Mr. MILLIKIN. Mr. President, let me point out again to the Senator that the way a corporation handles its profits, as well as its other income, determines whether it remains in business. Once a corporation makes a profit, it does not sterilize the profit and say, "We shall never make another dollar." The profit may very well become a part of the continuing business of the corporation, including the continuance of the profit-making function, which also involves the loss-making function. Profits may

be swallowed up in debt and they may not be available for tax payments.

Mr. HUMPHREY. Let me ask the Senator from Colorado whether he feels that the rate which his committee has recommended, or the House rate, which the House committee recommended and which the House agreed to, would in any way threaten the solvency of our corporate structure.

Mr. MILLIKIN. I think they both would, to a degree. Mr. Wilson testified before our committee that the present corporate rate could not be used to sustain the economy indefinitely.

Mr. HUMPHREY. No one would deny that. It cannot be used indefinitely.

Mr. MILLIKIN. Just a moment. The Senator was saying that this cold war is going to continue for 10 years.

Mr. HUMPHREY. Oh, no.

Mr. MILLIKIN. Or indefinitely.

Mr. HUMPHREY. I did not say indefinitely.

Mr. MILLIKIN. That is pretty indefinite.

Mr. HUMPHREY. When the Senator says "indefinitely," he is speaking of a greater approximation to eternity than I was talking about. I simply say that the evidence, from the Federal Trade Commission, from the Department of Commerce, from the Bureau of Internal Revenue, from the hearings which the Senator and his committee have prepared, and from the House hearings, clearly reveals that the corporate tax increase which was imposed by the House was not a tax increase which would destroy or seriously weaken the profit position of corporate enterprise in this country. In other words, it would still leave, under present rates, more than \$17,000,000,000 of net profits after taxes.

Mr. MILLIKIN. That, I assume, is the debatable core of the Senator's presentation.

Mr. HUMPHREY. No.

Mr. MILLIKIN. Then is it merely a perimeter facet?

Mr. HUMPHREY. The Senator from Colorado joined my friend from Illinois in at least a somewhat flanking action a moment ago, and that is how we got off on this tangent. We were going to move along. This is not the core of the argument at all.

Mr. KERR. Mr. President, will the Senator from Minnesota yield for another question?

Mr. HUMPHREY. I yield.

Mr. KERR. Did the Senator make the statement a while ago that a corporation's taxes were based altogether on profits?

Mr. HUMPHREY. The corporation profits taxes are.

Mr. KERR. I know that that is one of the things in the bill, but I understood the Senator to say that if a corporation made no profit it had no tax to pay.

Mr. HUMPHREY. It has not corporation profits tax to pay.

Mr. KERR. That is not what the Senator said.

Mr. HUMPHREY. I thought we were talking about the Senate tax bill. We are not talking about a real-estate question; we are not talking about the local

license fee collected by a municipal government; we are talking about a corporation profits tax.

Mr. KERR. I appreciate that information; but that was not what the Senator said, and I merely wanted to be sure that it was not what he meant.

Mr. HUMPHREY. I merely wish to say that if the Senator has any doubt as to the meaning of my words, I thought—and I will stand corrected if I am mistaken—we were discussing the bill before us, which deals with a variety of tax problems, which are Federal tax problems; and also for the moment I was discussing the corporation income tax.

Mr. KERR. I appreciate that. I say to the Senator that I had no doubt as to his words; I was trying to clarify my mind as to what his thoughts there, in order that I might relate the two.

Mr. LEHMAN. Mr. President, will the Senator from Minnesota yield for a question?

Mr. HUMPHREY. I yield to the Senator from New York.

Mr. LEHMAN. Is it not a fact that the record shows that the aggregate corporate profits for the first 6 months of the calendar year, after the payment of taxes, are in excess of the profits for the same period in 1950?

Mr. HUMPHREY. I think that is correct.

Mr. LEHMAN. If the Senator will yield further, I should like to ask the distinguished Senator from Colorado a question. The Senator from Colorado has brought up the point of a corporation's being required to borrow money in order to pay a tax which has accrued on the operations of the previous year, and I have no doubt that he is accurate in that statement. But I may point out that, in my experience, it is by no means unusual that corporations which make huge profits currently, and which have made huge profits in the past, are compelled to borrow money to pay their debts of one kind or other.

Mr. MILLIKIN. I agree.

Mr. LEHMAN. And the debt incurred for the payment of the tax for a past year, a tax which has accrued in the past year, is just as much a debt as any other; but there is nothing at all unusual in a corporation, even the most successful and profitable corporation, being compelled to borrow money to pay its debts, or to spend, or whatever the purpose may be.

Mr. MILLIKIN. I completely agree with the distinguished Senator. The only point I am making is that it is possible for a man to owe debts at the same time he is making profits.

Mr. HUMPHREY. Of course.

Mr. MILLIKIN. And he must pay those debts out of his profits.

Mr. LEHMAN. There is no doubt about that.

Mr. HUMPHREY. That is commonplace to practically every homeowner in the country. A man has a home, he has an income, he has a mortgage. He has to pay taxes, as well as the interest on the mortgage and the principal. That is perfectly obvious.

Mr. DOUGLAS. Mr. President, if the Senator will yield for a question—

Mr. HUMPHREY. I yield to the Senator from Illinois.

Mr. DOUGLAS. This is the last point I shall make. Debts are paid out of gross profits, and taxes are paid from net profits. Therefore, debts are not paid from net profits, but are paid out of gross profits. The tax is paid only on net profits.

Mr. HUMPHREY. Now, Mr. President, if I may move along—

Mr. GEORGE. Mr. President, will the Senator from Minnesota yield for a question?

Mr. HUMPHREY. I yield to the Senator from Georgia.

Mr. GEORGE. I ask the distinguished Senator whether he does not think that every corporation in this country, if it is able to do so, figures on the cost of the articles produced or handled by it, or the cost of services rendered, so as to include its corporate tax?

Mr. HUMPHREY. It is often one of the cost factors, I may say to the Senator.

Mr. GEORGE. Certainly; and it is taken into consideration. Actually, it is done except where competitive conditions will not permit; where, for instance, a standard article has a fixed price, in which case the corporation cannot figure beyond that price, of course. But actually there is not a corporation in the country which does not take into account its estimated income tax, in figuring the cost of its product. If it failed to do so, it could not exist very long. So I do not see the point of the argument which has been taking place. I frankly cannot see it.

Mr. HUMPHREY. I think there is a very good point which can be raised, because some attempt is being made, perhaps on both sides, to oversimplify matters. One side is simply saying that when we tax a corporation we are really not taxing the corporation, but that we are simply taxing poor old John Q. Public, at Toonerville, or some other place, because he is going to buy the corporation's products. It is a queer twist which has recently been given to taxation.

Mr. GEORGE. All I wanted to do was to try to state my own position, a position which I am satisfied all practical-minded men will on reflection admit to be sound. The corporate tax is a hidden sales tax to the extent that it can be passed on. It cannot always be passed on.

Mr. HUMPHREY. That is a very good qualification, and it is a very meaningful qualification.

Mr. GEORGE. It cannot always be passed on; but, by and large, it can be, and, by and large, it is.

Mr. HUMPHREY. I think that greatly depends upon the extent of the implication of "by and large." I think it depends greatly upon other considerations which enter into the problem.

Mr. GEORGE. It does; but, generally speaking, corporations figure into the cost of their product the estimated tax, whether they are dealing with goods or services; and they are obliged to do that if they are to remain in business, except, of course, in the case of a corporation with an enormous accumulated capital or surplus, which may be engaged in a line of business in which competitive conditions will not permit that to be

done. It may be producing, strictly and only a standard article with a fixed price, and it cannot figure the tax, of course, in the price charged for that standard article. Presumably, even the standard article yields a margin of profit to the producer, who otherwise would not continue in that line of business, and could not do so very long.

Mr. HUMPHREY. I would merely say to the Senator that in this argument we are ignoring one fact, that at least it is the accepted judgment in our country that most of our enterprise is competitive. Now, if we are willing to state on the floor of the Senate, and if the chairman of the Finance Committee is willing to state, that we live under monopolistic conditions—

Mr. GEORGE. Oh, no; oh, no.

Mr. HUMPHREY. Very well.

Mr. GEORGE. I am willing to state that if certain of the theories which have been constantly advanced in the Senate were carried out, we would be headed into a monopolistic system strictly, and competitive conditions, which now exist, would be destroyed.

Mr. HUMPHREY. The Senator is now saying that there are competitive conditions.

Mr. GEORGE. Certainly; there is no doubt about it.

Mr. HUMPHREY. And what the Senator from Illinois and the Senator from Minnesota, as well as the Senator from New York, have tried to say is that the corporate profits tax is a tax which is levied after the sale of goods, after the operation of the business, and that it is unfair, as I think can be abundantly proved, to say either by fiction or fact that the tax is actually passed along to the consumer. To be sure, there may be a scintilla, a piece of it, passed along, but the fact is that the amount which is picked up by the Government from the corporation tax, as compared to the amount which is passed along to the suddenly found overburdened lower-income group, is far greater in proportion than the amount which is passed along.

Mr. DOUGLAS. Mr. President, will the Senator yield?

Mr. HUMPHREY. I yield.

Mr. DOUGLAS. It is with a great deal of trepidation that I venture to disagree with the eminent chairman of the Finance Committee on this matter—the principle is an important one—when he says that corporation profits taxes are passed on to the consumer in higher prices and are not borne by investors or owners. I think, with all due respect, that he falls into a great error. If the industry is a competitive one, the price will be determined by the out-of-pocket cost to the company on the last unit produced. So long as the price is above the last cost, the company will produce more. If it is below the cost of the last unit, the company will produce less. Any profits which accrue will not be on the margin, but will be on the lower cost of preceding units.

If the industry is a monopolistic industry, the price will be fixed at the point which will yield the greatest total profit to the company. This is where the added revenue to the company on the last unit is equal to the added cost. The

tax on profits will be taken from the surplus accrued on the earlier units and, therefore, will not be passed on. So the corporation profits tax is one which is not shifted to the consumer, but is taken out of the funds which the corporation has available for distribution to the owners or for reinvestment purposes.

It may be said that that should not be done, but that is a question of social policy. It seems to me it is wrong to say, as a matter of fact, that these taxes are passed on to the consumer. I hope the issue on this point can be clearly understood from the very beginning of the debate.

Mr. GEORGE. If he will permit me to say so, the distinguished Senator from Illinois is saying in a large number of words that it depends on competitive conditions. I laid it down in the beginning that corporate taxes are not passed on when competitive conditions do not permit. But I think I might be reasonably satisfied if the Senator from Minnesota and the Senator from Illinois would, by tomorrow morning, file a list of reputable corporations who will say that they do not take into account an estimated income-tax liability in the beginning of their operations in connection with whatever goods and services they produce and whatever service they render.

Mr. HUMPHREY. How would we obtain a witness without prejudice? Of course they would say that.

Mr. GEORGE. Does the Senator hold that the entire American business group is crooked?

Mr. HUMPHREY. No. Of course not; but they are not without prejudice. Indeed, they would be able to show, for the purpose of talking about a tax bill, that they include in their prices certain parts of their income-tax liability.

Mr. GEORGE. Indeed they would, and indeed they would tell the truth. We are simply arguing in circles.

Mr. HUMPHREY. I think that is possibly true. We are trying to push each other to an extreme position. A competitive situation does prevail in the vast majority of cases, and the Senator from Minnesota also says that if competitive conditions do not prevail, we should not be talking about whether a tax bill is going to hurt the corporation or the consumer; we should break up the monopoly and get the issue where it properly belongs.

Mr. GEORGE. A competitive condition does exist, but it does not exist to the point of compelling a corporation to do business without profit or without the hope of profit. That is the trouble. There may be a condition which is competitive, and yet there is the belief on the part of the going corporation that it can secure a profit, and it always estimates its ultimate tax liabilities against its profit, or what it hopes to make.

Mr. HUMPHREY. Carrying the argument to its logical conclusion, the logical deduction from the argument made by the distinguished Senator from Georgia—

Mr. GEORGE. I beg the Senator's pardon. I am in control of my own logical deductions. Some of the countries

from whom we have borrowed our whole income tax system have viewed the matter exactly in the light in which the Senator puts it, that the corporation itself is the mere collector out of its shareholders, and the ultimate tax is borne by the shareholder. For a long time that was the British concept, that the corporation pays the tax at a rate and charges it up to each shareholder.

Mr. HUMPHREY. Does not that at least prove that the logic of the Senator's argument is what he is now saying, that it was actually done in fact, not in theory? The simple deduction, if followed through, would lead one to believe that.

Mr. GEORGE. I do not understand how the Senator from Minnesota can say that there are not some reasonably good corporations. There may be many bad corporations—

Mr. HUMPHREY. The Senator from Georgia is not going to say that the Senator from Minnesota has in any way attacked the corporations, is he?

Mr. GEORGE. Let me simplify my proposal. Let the distinguished Senator from Illinois and the distinguished Senator from Minnesota get a statement from the good corporations, which can qualify as good corporations, that they do not take into account their estimated tax liability in the production of their goods or in the services which they render, and let them bring the information back tomorrow morning.

Mr. HUMPHREY. Let us make a deal. Since the Senator from Georgia is the chairman of the Finance Committee and since the Finance Committee has made a determination to reduce the corporate income tax figure approximately \$800,000,000 below the House figure—

Mr. GEORGE. Oh, no.

Mr. HUMPHREY. I mean, the total corporate tax figure.

Mr. GEORGE. A large part of that is in the excess-profits tax.

Mr. HUMPHREY. What I am saying is that since the decision has been made by the Finance Committee to reduce the figure to \$800,000,000, let the Senator from Georgia give me the names of the corporations which told him that the corporate tax was passed on to the consumer. If he does so, then he is simply saying that there are monopolies, and if there are monopolies, they should be destroyed through the Sherman Antitrust Act.

Mr. GEORGE. I refer the Senator to the three volumes of testimony, to see if he can find evidence that any corporation stated it would not pass the tax on to the consumer if it were possible, or if competitive conditions permitted. No corporation could long exist if its executive management did not do precisely that, because a corporation cannot deduct back payments on its debt; it can only deduct interest paid on the debt.

Mr. HUMPHREY. I am in somewhat of a quandary about how this works out. Here are corporations saying the taxes are going to be the death of them, so to speak. They have stated many times in letters to every Senator in this body that the taxes are a tremendous burden, and yet we hear on the floor that the

taxes are passed on to someone else. Somewhere in this argument something is lost; there is a no-man's land; there is a dark zone where the truth does not seem to be able to penetrate.

Mr. GEORGE. No, Mr. President. Corporations are composed of men of ordinary common sense, and they know that if prices are so high that they cannot sell their product, they will be driven from the market and will go broke. Corporations are made up of individuals who have gone into an organization of some type or nature, and they know very well that if their prices go too high they cannot sell, they, therefore, cannot make any profit, and, therefore, they will go broke.

Mr. HUMPHREY. I am very fascinated with this argument. On the one hand, the corporations say they are champions of free enterprise and yet the argument is being made that where competitive conditions prevail they do not pass the tax along. The argument is likewise being made that because we do have a tax on corporation we are going to increase it, and it is going to be passed along, which obviously leads to the conclusion that we do not have competitive conditions, which means that we have monopolistic conditions.

Mr. GEORGE. The Senator from Minnesota will render a great service to the taxing authorities of this country if he can convince the American people—fortunately, they are people of good common sense, taken as a rule—that it does not make any difference at all about what taxes are put on corporations; that we do not have to inquire as to whether a corporation has to live under one tax or another.

Mr. HUMPHREY. I may say to the Senator from Georgia—

Mr. GEORGE. I have said, and I repeat, that if the competitive conditions are such as to control prices in all events, then there we have the ceiling. There can be no doubt about that. There are numerous circumstances in which the total tax is not passed on. But I know of no solvent business, or business that can hope to remain solvent, that does not figure its estimated tax liability in the production of its goods and services. That is what I am saying. And I do not think the Senator from Minnesota, on reflection, will want to take issue with that statement.

Mr. HUMPHREY. Let me say on reflection that my reflection leads me to the conclusion that when the corporate structure in American business in the first quarter of 1951 made a gross profit at the rate of \$50,000,000,000 a year, and last year, in 1950, after July, had one of the highest profits in its history, and saw nothing in the tax bill Congress passed in September of last year to cause them to diminish their efforts because their profits increased in 1951, the corporations composing that structure are not going bankrupt. We raised the corporate tax rate, and the Senator from Georgia was the leader of that a year ago.

Mr. GEORGE. I am not arguing about whether they will go bankrupt.

Mr. HUMPHREY. No; but did that injure their solvency? Did that jeopardize

dize their position? Indeed, it did not. The record reveals that instead of being weaker, they are stronger; that instead of making less profits, they are making more profits. In spite of all the ghosts that are being raised, and the scares that we hear, the record shows that the profits of the corporations have increased. I conclude by saying that every statement that has been made has been qualified by the statement that if a competitive situation exists, of course, the tax is not really all passed on.

Mr. GEORGE. That is true.

Mr. HUMPHREY. There are other limitations, such as that every corporation takes into consideration its tax liability. Of course, they take into consideration their tax liability just as every individual in the country takes into consideration his tax liability. But I submit that there is a fund of profits which has accrued, as the Senator from Illinois quite well put it, out of the sales of goods and services, sales of goods and services that have made a profit, and the profit is there for purposes of distribution to the shareholders, and bondholders, and for purposes of taxation, and it is that profit which we are taxing.

Mr. GEORGE. Mr. President, will the Senator yield?

Mr. HUMPHREY. I yield.

Mr. GEORGE. The Senator is not getting down to the milk in the coconut. The very large, strong corporations can do what the Senator from Minnesota and the Senator from Illinois visualize, to wit, they can become the monopolies that control the economy. But what has happened, even under existing taxes, is that many individual, small, and weak units, have actually gone out of business.

Mr. HUMPHREY. The Senator from Georgia knows there are many reasons for that besides taxes.

Mr. GEORGE. Taxes is one of the big reasons.

Mr. HUMPHREY. That is not what the Small Business Committee reports indicate.

Mr. GEORGE. That is what the record in this case shows, and that is true to life. A study of Dun & Bradstreet's reports will show that to be true. That means that the little fellow could not pass on, perhaps, the corporate tax in many cases, and to the extent that he could not, he became a casualty. The big fellow can stand, and can pass on the tax, or if he cannot pass it on he can absorb it and keep his competitive position.

But what I am saying to the Senator is that when we resort to general averages we are likely to fall into all kinds of pits and dangerous positions, because we are looking at the man who can absorb his tax without passing it on, and who can survive even under this high tax. I want the Senator from Minnesota to bear in mind that when a small corporation gets to the point, if it ever gets to the point, where it must pay 52 percent of its income in taxes, to say nothing about an excess-profits tax, it is never going to be a giant corporation.

Mr. HUMPHREY. There is an honest difference of opinion. The opinion of the Senator from Minnesota, which is

shared by the Senator from Illinois, and was shared by an overwhelming majority of the members of the House, and by the House Ways and Means Committee, has been shared by a number of people who are competent, eminent financiers and economists.

Mr. President, I conclude this part of my argument on the corporation tax by saying that when the Finance Committee can show me that the taking of \$800,000,000 of all kinds of corporation taxes out of a pool of gross profit of \$50,000,000,000 is going to jeopardize the economic solvency of business, then I shall change my position.

Mr. MILLIKIN. Mr. President, will the Senator yield?

Mr. HUMPHREY. I yield.

Mr. MILLIKIN. I should like to invite the attention of the senior Senator from Georgia to a fact which developed during the hearings. The National Association of Manufacturers had proposed a general manufacturers' excise tax. Some members of the committee, including myself, oppose that kind of a tax because it is a tax which we think is passed on to the ultimate consumer and passed on with varying degrees of mark-ups. Let me invite the attention of the distinguished Senator from Minnesota to the fact that the representative of the National Retail Merchants' Association came forward and said to the committee "Yes, that is true, such taxes are passed on to the consumer." While we are talking about excise taxes, I say in addition, that they are paid at the level where they are imposed, whether or not the producer is making a profit.

Mr. HUMPHREY. Indeed, and the people who pay the excise taxes are the great rank and file of the American people. I intend to point out that while we have been willing to have \$1,300,000,000 of excise taxes imposed, they will be paid by the rank and file of our people, and that we are also in this bill opening up new loopholes which will be availed of by a handful of people who are doing better than they ought to do under any reasonable economic situation.

Mr. MILLIKIN. Mr. President, will the Senator yield?

Mr. HUMPHREY. I yield.

Mr. MILLIKIN. The indirect taxation that rests on the people with incomes of \$5,000 a year is passed down from the taxes which the Senator would impose on the middle and the upper brackets, because it can come from no other source.

Mr. HUMPHREY. That of course is debatable, and the Senator knows it. To be sure, there is a revenue that can be extracted from those receiving an income of \$5,000 or less. Let me remind the Senator that revenue can be extracted from other people.

Mr. MILLIKIN. I am not proposing that it be extracted. One of the reasons that has deterred me from giving personal approval to programs which would extract additional taxes from the lower brackets income groups is the weight of the passed-down taxes which rests on them just the same as though they were direct taxes.

Mr. HUMPHREY. I want to thank the Senator from Colorado.

Mr. President, there is every indication that corporations have the ability to pay the taxes proposed in the House bill. Markets for corporations—at least for the big ones—are virtually assured by the defense expenditures of the Government.

A 5-year amortization has been allowed on \$6,000,000,000 of future plant expansion, even though a high proportion of these facilities will be useful to their owners after the current emergency is over.

The excess-profits tax provides generous relief provisions for all corporations. It is not surprising, under these circumstances, to find that the stock market has this year reached the highest levels in the past two decades. To ask corporations to bear \$2,900,000,000 of additional taxes, as provided in the House bill, is only fair in times like these, since it will still leave them with record profits after taxes.

Notwithstanding all the argument to the contrary and all the fanfare we can conjure up, the fact of the matter is that the stock market is at an all-time high. The fact is that profits are at an all-time high. The fact is that when we take \$2,900,000,000 more taxes from the corporations their profits will still be at an all-time high. I submit that these facts must be taken into consideration.

Mr. LONG. Mr. President, will the Senator yield?

Mr. HUMPHREY. I yield.

Mr. LONG. Does the Senator mean that profits of corporations after taxes are at an all-time high, or does he mean that profits before taxes are at an all-time high?

Mr. HUMPHREY. Profits after taxes.

Mr. LONG. Some of the figures indicated to the junior Senator from Louisiana that, although profits were higher, when we considered the additional taxes the net profits would not be so high as they have been during the previous year.

Mr. HUMPHREY. Profits this year are at an all-time high, despite the fact that the corporation tax was increased last year. I refer to net profits as well as gross profits.

Mr. LONG. Profits after taxes?

Mr. HUMPHREY. Yes.

The major part of the three-quarter-billion-dollar reduction in the corporation-tax increase made by the Finance Committee is due to the elimination of the increase in the excess-profits tax proposed by the House and the reduction of the ceiling rate from 70 to 69 percent. These two changes, which cost about \$600,000,000, will benefit the largest and most profitable corporations. By contrast, the purpose of the House provision was to reduce the impact of the higher taxes on corporations whose profits have fallen substantially below their average profits in the base period.

The pending bill deviates in one other important respect from the House bill. The House made the corporation tax increases effective January 1, 1951. As reported to the Senate, these increases are made effective April 1, 1951, or one quarter later. In this manner, liabilities

of corporations for the calendar year 1951 will be reduced by more than half a billion dollars.

I wish to point out that the first quarter of the year was the richest, most profitable quarter in the history of American business. Why must the bill be made retroactive only to April 1? Why, in last year's bill, did we not make the tax retroactive to the point to which it should have been made retroactive, back to July 1?

I think the American people know that corporation profits after July 1, 1950, were far above those for the first half of 1950. I think the American people know that corporation profits from January 1 to April 1, 1951, were the highest in the history of this country or any other country in the world. Not to put this tax back to January 1 is to let a group of corporations get by without paying their fair share of taxes. They knew that this bill was coming up. The President said in January that there was to be a tax increase. This is no sneak play. This is not a "quickie" which has been pulled from behind a curtain. As a matter of fact, every business and every firm in America, as well as every individual citizen, has been alerted since last January to the fact that there was to be a sharp increase in taxes. I shall offer an amendment, and fight for the amendment with all the power at my command, to make the corporate tax base or rate effective January 1, 1951, and not April 1.

Mr. LEHMAN. Mr. President, will the Senator yield?

Mr. HUMPHREY. I yield.

Mr. LEHMAN. Is it not a fact that the estimates given in the report on the House bill are based on the collection of the corporation tax for the full calendar year, from January 1?

Mr. HUMPHREY. That is correct.

Mr. LEHMAN. That is one of the reasons for the diminution in the estimated receipts under the Senate bill. I know of no case in which an income tax has been made retroactive; but is it not the fact that with respect to the corporation tax, there have been many instances in which the tax has been made retroactive?

Mr. HUMPHREY. I understand so, from 1913 on, every year except last year. I think the act went into effect on October 1 last year. We passed the bill before that date. So let no one bring up the argument that retroactivity is an innovation or a newfangled idea that we have just figured out. It has been going on since 1913.

I have heard some peculiar argument from those who seem to shed tears for the corporations. For years we have been told that we were wrecking the corporations by taxes. The facts prove otherwise, Mr. President. The facts prove that even though we increased the taxes of corporations, their profits still went up. I defy anyone to dispute the fact that every year since November 1940, profits have gone up, even though taxes have gone up.

Now we have a new argument. The new argument is that corporations do not pay taxes, that they are only holding

companies, or siphons through which money runs, and that those who pay the taxes are the citizens who buy the products of the corporations. This is just a new way to enlist the little man on the street on the side of the corporations, which last quarter, at the annual rate, made a gross profit of \$50,000,000,000 and a net profit, under the present tax bill, of more than \$17,000,000,000. I submit that is not an unfair profit in terms of giving them something to live by. It is a very generous profit.

In connection with the retroactivity feature of the bill, I should like to have any member of the Finance Committee tell me why the date was made April 1. I know what the facts show from January 1 to April 1. I know that by taxing during that period we would get more money than we would by taxing from April 1 to July 1. I want to know why the best quarter of the year was left out. I believe that the fact that it was left out, and that we did not tax it, indicates the tenor of the bill.

The liabilities of corporations for the calendar year 1951 will be reduced by more than one-half billion dollars because of the April 1 date. The difference in effective dates was reported by the Wall Street Journal on September 11, 1951, to mean a reduction in the taxes of United States Steel of \$23,000,000.

Why in the name of common sense should United States Steel, with record profits, escape paying \$23,000,000 in taxes which it ought to pay? Its profits have been unlike anything in history. The people of America are taking their products. The Government of the United States, with the money of the taxpayers, basically, is purchasing most of its product. Why should United States Steel escape paying \$23,000,000 in taxes which it ought to pay? It knew that taxes were to be increased. It was so informed.

The Senator from Georgia [Mr. GEORGE] stated that every corporation figured in its costs its tax liability. The United States Steel Corp. then must have already charged such tax liability into the cost of the steel, on the basis of the argument of the Senator from Georgia. If the Senator from Georgia is correct, that corporation figures their tax liabilities in as a part of costs, that is all the more reason why corporations should be taxed back to January 1, 1951.

On the basis of the financial report for the first half of this year, General Motors will save at least as much as United States Steel, by the change in the effective date of the application of the tax. Someone is going to pay this tax bill, and I submit that the tax bill ought to be paid by those who are making a profit out of war. I repeat that if we leave the date at April 1, 1951, we shall lose, according to the calculations we have from the Treasury Department, approximately half a billion dollars. I ask the Senate Finance Committee, upon whom the burden of proof rests, why the date of April 1? Give me the magic word. Corporations have been forewarned about additional taxes.

Mr. MARTIN. Mr. President, will the Senator yield?

Mr. HUMPHREY. I yield.

Mr. MARTIN. The Senator from Minnesota must realize that we are including the full year 1951 in the consideration of taxes. We do not simply leave out the first quarter. Does not the Senator realize that?

Mr. HUMPHREY. No. The corporation tax is retroactive only to April 1.

Mr. MARTIN. I know; but we take into consideration the full year.

Mr. HUMPHREY. Yes; but we tax the part from January 1 to April 1 at the old rate.

Mr. MARTIN. But we take the full year 1951, and then prorate the tax.

Mr. HUMPHREY. That is correct.

Mr. MARTIN. We take three-fourths of 1951 and pay on that amount.

Mr. HUMPHREY. That is correct.

Mr. MARTIN. But we make out the return for the full year.

Mr. HUMPHREY. That is correct.

Mr. MARTIN. And take three-fourths of it.

Mr. HUMPHREY. Three-fourths of it will be at the new rate and one-fourth at the old rate. That is what the Senator from Minnesota is complaining about.

Mr. KERR. Mr. President, will the Senator yield?

Mr. HUMPHREY. Yes.

Mr. KERR. I am sure the Senator from Minnesota has the matter clear in his mind. The action of the Senate committee would do this: It would apply three-fourths of the increased rate to the full 1951 taxable income of the corporation.

Mr. HUMPHREY. I thank the Senator from Oklahoma.

I now wish to discuss individual income taxes. I have a long way to go, so I had better move along. I will discuss every portion of the bill.

Mr. MARTIN. Mr. President, will the Senator yield for another question?

Mr. HUMPHREY. Yes.

Mr. MARTIN. I did not know that the Senator had concluded the corporate end of his discussion. I know that the Senator from Minnesota wants to be entirely fair. He is talking about giant corporations, and he has mentioned the United States Steel Corp.

Mr. HUMPHREY. A fine corporation.

Mr. MARTIN. How many stockholders are there in the United States Steel Corp.?

Mr. HUMPHREY. I do not know. Perhaps 500,000.

Mr. MARTIN. The number is about 200,000. What is the average holding per stockholder?

Mr. HUMPHREY. I do not know. I know that there are approximately 10,000,000 stockholders in the United States and the average dividend is \$100.

Mr. MARTIN. The testimony before the committee was to the effect that it was less than 80 shares. In other words, there are approximately as many shareholders as there are employees of that great corporation. The testimony was to the effect that no foundation or individual had a greater holding than 25,000 shares.

Mr. LEHMAN. Mr. President, will the Senator yield?

Mr. HUMPHREY. Yes.

Mr. LEHMAN. I should like to make an observation with regard to that statement. In the first place, if my recollection serves me correctly, the dividends of the United States Steel Corp. today are as high as or higher than they have ever been in the history of the corporation, giving effect, of course, to splitting up of stock. In the second place, if it be true—and I am sure it is—as stated by the distinguished Senator from Pennsylvania [Mr. MARTIN], that the stock is very widely distributed—and I am surprised that the average holding is as large as 80 shares—

Mr. MARTIN. I believe I was in error when I said it was 80 shares. I believe it is around 40 shares.

Mr. LEHMAN. Whatever it is, it is a small amount. It means that the dividends which are paid by the corporation go in large measure to the small man, the man who has 5, 10, 15, or 20 shares. I am very confident that in the next part of his remarks the Senator from Minnesota will point out that the man of moderate means bears a relatively greater proportion of the income-tax burden than the man of larger income.

Mr. HUMPHREY. I shall take up the relationship of the tax load to the various income groups. I wish to say to my friend from Pennsylvania that there is no intention on the part of the Senator from Minnesota to tax the United States Steel Corp. out of business.

Even after United States Steel pays the tax its profit picture will be about the best it has ever been. Possibly in 1 year, perhaps in 1948, the picture may have been just a little bit better. However it will still mean record-breaking profits, and the stockholders will still get their dividends. The Senator from New York [Mr. LEHMAN] is correct when he stated that dividend checks have been as high in most instances as they have ever been in the history of the corporation, and that in many instances they have been higher than ever before. I shall now discuss individual income taxes.

Mr. MARTIN. Mr. President, will the Senator yield for another question? I shall not bother him again.

Mr. HUMPHREY. I am glad to yield. It is perfectly all right.

Mr. MARTIN. I should like to make one comment. Because all of us want to come to the correct and proper conclusion, we must remember that we have been living in an inflated economy since 1941.

Mr. HUMPHREY. That is correct.

Mr. MARTIN. That fact must be taken into consideration.

Mr. HUMPHREY. I believe that to be a very fair observation. I am glad that the Senator from Pennsylvania has made it for the RECORD. Profits are misleading. Profits must be considered in relation to capital investment and sales. All factors must be balanced.

B. INDIVIDUAL INCOME TAX

The most equitable feature of the bill as passed by the House was the defense tax which increased everybody's taxes by 12½ percent, with an adjustment in the highest brackets to limit the topmost rate to a maximum of 94.5 percent.

I may say, as I pass along, that no one makes any friends by talking about higher taxes. This has been a labor of love on my part, and must continue to be so, because I cannot imagine anyone liking a Senator any more for saying that a 12½-percent tax is a good tax. To say so is the easiest way to lose friends and make enemies.

Mr. MARTIN. On that point, I may say that from a political standpoint it is always good politics to vote for every appropriation and against every tax measure.

Mr. HUMPHREY. Indeed, it is, and Congress has done just that. Congress has voted for the appropriations and the expenditures, but it has not gone quite down the full road in raising revenue. It seems to the Senator from Minnesota that since the majority of the Senate has made the decision with respect to expenditures and appropriations, the same majority should have the same courage and the same drive to move ahead and acquire the necessary revenue.

The method of increasing taxes for lower and middle bracket taxpayers—the increase by 12½ percent—has been retained in the bill before us, but the increase is reduced from 12½ percent to 11 percent. In the higher brackets, however, the tax increase was limited to 8 percent after present taxes. The effect of these changes at different levels of income for a married person with two dependents is shown in a table which I have had prepared. I ask unanimous consent that the table may be printed in the RECORD at this point in my remarks.

There being no objection, the table was ordered to be printed in the RECORD, as follows:

Net Income ¹	Tax increase		Reduction	
	(1)	(2)	(3)	(4)
	House bill	Finance Committee bill	Amount (1) - (2)	Percent (3)/(1)
\$3,000.....	\$15	\$13	\$2	13.3
\$5,000.....	65	57	8	12.2
\$10,000.....	199	174	25	13.3
\$25,000.....	784	688	96	12.0
\$50,000.....	2,361	2,080	281	12.0
\$100,000.....	6,489	3,680	2,809	43.0
\$500,000.....	29,571	7,787	21,784	74.0
\$1,000,000.....	42,544	11,287	31,257	74.0

¹ Income after deductions but before exemptions.

Mr. HUMPHREY. Mr. President, the table outlines the tax increase in the House bill and in the Senate Finance Committee bill. It also shows the amount of reduction in the Senate bill and the percentage of reduction.

I shall give only one or two examples from the table in order to point out its importance. For example, a man who has a net income of \$3,000 would pay a tax increase of \$15. Under the Senate bill he would pay a tax increase of \$13. Obviously, the reduction would be \$2, or 13 percent.

A man who has a net income of \$5,000, which is the income of the vast majority of American people—they have an income of \$5,000 or less—would pay a tax increase of \$65 under the House bill. Under the committee bill his increase

would be \$57. The amount of the reduction in the Senate bill is \$8, or 12 percent.

If a man has a \$10,000 net income, the House would increase his tax by \$199. The Senate bill would increase it by \$174. The amount of the reduction would be \$25 under the Senate bill, or a reduction of 13 percent.

If a man has a net income of \$50,000, his tax would be increased by \$2,361 under the House bill, and by \$2,080 under the committee bill. The amount of the reduction would be \$281, or 12 percent.

A man who has a net income of \$100,000 would have his tax increased by \$6,489 under the House bill, and by \$3,680 under the committee bill, a reduction of \$2,809, or 43 percent.

Some time ago it was suggested that we had better be thinking about where our sources of revenue are. The House thought that we could raise the tax on a man who is getting \$100,000 a year by \$6,489 under an across-the-board supertax. The Senate said, "No, we will raise the tax \$3,680." In other words, the same Senate committee which gave a \$10,000 a year man a 13-percent reduction in taxes, or a \$5,000 a year man a 12-percent reduction in taxes, gave a \$100,000 a year man a 43-percent reduction in taxes. If the reductions are said to be made on a 50-50 basis, then it is the same 50-50 basis that was used in the well-known story of the stew made on a 50-50 basis, as between horse meat and rabbit meat, by using one horse and one rabbit.

For a \$500,000 a year income, the House of Representatives voted a tax increase of \$29,571, but the Senate committee voted a tax increase of only \$7,787. The amount of reduction voted by the Senate committee, in that respect, is \$21,784, or a 74-percent reduction.

Mind you, Mr. President, that is a 74-percent reduction for a man having an earned income of \$500,000 a year. He will receive a 74-percent reduction, under the provisions of the bill as reported by the Senate committee. Of course, his tax will not be reduced; but under the terms of the Senate committee version of the bill, his tax will be 74 percent less than the tax voted by the House of Representatives.

Mr. KERR. Mr. President, will the Senator yield for a question?

The PRESIDING OFFICER (Mr. STENIS in the chair). Does the Senator from Minnesota yield to the Senator from Oklahoma?

Mr. HUMPHREY. I yield.

Mr. KERR. The Senator is saying, is he not, that the increase will be that much less, not that the tax will be that much less?

Mr. HUMPHREY. I was just reaching that point when the Senator rose to his feet and asked that I yield.

Mr. KERR. I thought the Senator from Minnesota had finished his statement and was about to take a drink of water.

Mr. HUMPHREY. No; the Senator from Oklahoma must not have been watching me very carefully.

Mr. KERR. Indeed I was watching the Senator carefully.

Mr. President, will the Senator from Minnesota yield further?

Mr. HUMPHREY. I yield.

Mr. KERR. Does the Senator from Minnesota know the percentage the House fixed for the tax on the portion of the income of such a person that is in excess of \$80,000?

Mr. HUMPHREY. I think it is 94.5.

Mr. KERR. Yes; 94½ percent?

Mr. HUMPHREY. That is correct.

Mr. KERR. The Senator from Minnesota is aware of the fact, is he not, that that is aside from the income tax the citizen pays to his State government?

Mr. HUMPHREY. I am aware of that.

Mr. KERR. Does the Senator know what that average tax is?

Mr. HUMPHREY. I cannot say, because many States do not have income taxes.

Mr. KERR. Many of the States have income taxes up to 8 percent, do they not?

Mr. HUMPHREY. Yes, and many of the States have a lower tax, and some of them have no income tax at all.

Mr. KERR. Then the Senator from Minnesota is aware of the fact that under the provisions of the House version of the bill, the Government would have taken 94½ percent in that case.

Mr. HUMPHREY. Over \$80,000.

Mr. KERR. Over \$80,000, aside from the tax taken by the State in which the citizen lives.

Mr. HUMPHREY. That is correct.

Mr. KERR. Is the Senator from Minnesota aware that under the Senate committee version of the bill the Government still will take 88 percent of what the citizen makes above \$80,000?

Mr. HUMPHREY. I think that is about correct.

Mr. KERR. And that is aside from an average of approximately 4 percent the States take out of the citizens' pockets, as a tax, above that amount; and that leaves the average taxpayer—if there is any in that group—with about \$8 out of each \$100 to which that rate is applied. Is that correct?

Mr. HUMPHREY. That is correct.

Mr. KERR. Does the Senator think that is too much to leave that particular taxpayer?

Mr. HUMPHREY. No; I am merely saying that when we adjust the rates we should consider the man who is earning \$3,000 a year, and who is having a tough time living.

Mr. KERR. Does not the Senator from Minnesota know that no taxpayer's tax was increased 13 percent in the Senate committee version of the bill?

Mr. HUMPHREY. Mr. President, if the Senator from Oklahoma will be a little patient and will refer to my previous remarks, he will find that I said this is a super tax, a tax on a tax. I am simply saying that the House of Representatives voted to increase the tax paid by the \$3,000 a year man by \$15, and the Senate committee version of the bill calls for increasing it by \$13. I am saying that by simple arithmetical computation that means that the Senate committee version of the bill was more generous to the \$3,000 a year man; it will tax him less by 13 percent, as compared with the tax voted by the House of Representatives.

Mr. KERR. The Senator from Minnesota is saying that the House version—Senate committee version of the bill did that?

Mr. HUMPHREY. I say that the bill as reported by the Senate committee does that.

Mr. KERR. I believe the Senator from Minnesota referred to the House—Senate committee action.

Mr. HUMPHREY. I believe the Senator from Oklahoma should pay more attention to my argument, and less attention to my diction.

Mr. KERR. However, Mr. President, it is a little difficult for me to tell what the Senator from Minnesota has in mind, except by attempting to determine that by means of the words he uses.

Mr. HUMPHREY. Mr. President, I believe the Senator from Oklahoma joined, a moment ago, in the unanimous consent which was given to me to include in the RECORD a table, which I think is quite comprehensive.

Mr. KERR. However, it is a little difficult for me to tell what is in the table until I have an opportunity to see it.

Mr. HUMPHREY. I just read the table. The only trouble is that some persons did not like what I read in the table, because the table is very revealing.

Mr. President, I wish to observe that there has been a good deal of cross-examination and questioning, which I certainly wish to encourage, because I believe it is important in connection with the consideration of this bill, although it will make my remarks take much more time than I planned to have them take. I say with equal candor that the remarks I have prepared are long in themselves, because I have to the best of my ability, together with my associates, studied carefully the provisions which we believe to be most undesirable.

Mr. President, as I have pointed out, the revisions made by the Senate Finance Committee have reduced the tax increase voted by the House of Representatives by 12 or 13 percent for all levels of income up to \$50,000. However, the reduction was 43 percent at the \$100,000 level and 73 percent above the \$500,000 level. Stated in other terms, the tax bill was reduced for the 36,000,000 taxpayers with adjusted gross incomes of less than \$5,000 by a total of \$128,000,000; but for the 8,000,000 taxpayers with incomes above \$5,000 the reduction was \$351,000,000. To repeat, Mr. President, for 36,000,000 taxpayers the total reduction was \$128,000,000; but for 8,000,000 taxpayers the total reduction was \$351,000,000. When we add that reduction to the corporate tax rate and consider the date of its effectiveness, it is clear that considerable consideration has been given to the very well-to-do, to those who have a very favorable profit situation; at least, the consideration given them is far more extensive and far more conclusive than is the consideration which was given to the same group by the House of Representatives.

These figures demonstrate the real purpose behind the revisions made in the tax increases for individuals. They were designed to soften the impact of the tax bill on low-income recipients by a

few dollars in order to make more palatable the very large reductions made in the taxes of the wealthy. The 8-percent limitation will benefit only single persons with taxable incomes above \$27,000 and married persons with taxable incomes above \$54,000. Those with lower incomes will not save a single cent from this limitation.

The staff of the Joint Committee on the Economic Report recently published the latest study of the distribution of total Federal, State, and local taxes by income levels. These figures are no less than startling, and it is unfortunate that they have not been given more widespread publicity. The facts, as published by the Joint Committee on the Economic Report, are as follows:

In 1948 individuals and families with incomes under \$1,000—and, Mr. President, there are far too many of those in our country—paid 23.6 percent of their income in taxes to all levels of Government. This compares with 20.3 percent between \$1,000 and \$2,000; almost 22 percent between \$2,000 and \$5,000. Mr. President, I point out that a man who was getting an income of \$5,000, trying to support a wife, and the typical American family of two children or more, in 1948, before we stepped up the earned income tax—and we are getting ready to step it up further in this bill—was paying 22 percent of his total income for taxes; 23.1 percent, if he had an income between \$5,000 and \$7,500 a year; and 31.7 percent in the classes above \$7,500. Thus, the people with incomes below \$1,000 actually bear a heavier tax load when all taxes are taken into account, than any group up to the \$7,500 level.

Mr. President, I was shocked when I discovered these figures. I simply could not believe them. I remind my colleagues that it is this little group which we sometimes forget because, frankly, we do not associate with them day in and day out in our duties as Senators. It is this group of people in America, with less than \$5,000 a year income, who are suffering from high prices, from the high cost of medical care and who are suffering because their children do not have adequate schools to attend. They are the ones who are having to pay far in excess of what they ever paid before for a little wool coat for their children. These people pay a considerable tax bill, and the argument of the junior Senator from Minnesota is this: That so long as these people are paying 22 percent, or were, in 1948—and it has gone up considerably since 1948—of their total income in taxes, I am not moved a great deal when I hear it said that we cannot tax those who have incomes above \$54,000 a year or \$27,000 a year, or corporations which are making gross profits at an annual rate of \$50,000,000,000 a year. I am not moved one whit, because these are the folks who are bearing a great and heavy share of the tax burden; and I shall proceed, a little later, to show that there is "gimmick" after "gimmick" in the tax bill which does not help any man if he has an income of less than \$25,000 a year, but there are all kinds of "gimmicks" to help him if he has a greater income than that.

No; we say that if we increase the exemptions for a family which is trying to bring up a child in these days for what it cost to bring up a child a few years ago, we may not get the revenue. That is a frank statement. If the exemption for each child is increased, it would simply kill the revenue under this bill. So, in order to get the revenue, we are taxing again and again and again the low-income groups which are unorganized and do not have any paid lobbyists.

They are the simple folk throughout the country who live plainly, who do hard work, and who give their children to their Government for the service of their country, as others do. These folks have no spokesmen. They do not have anyone to write editorials for them. They do not have anyone who can speak for them on the radio. They do not have anyone to explain the extent of the tax load they bear; no, not at all.

Mr. President, I have taken it upon myself at least to make a little contribution to their welfare. I think that somewhere among the people's representatives we must have those who stand up to talk about this great group, which constitutes the great silent mass, we might say, of the American public. They are seething under these problems. But they did not have a lobby in Washington.

Mr. LONG. Mr. President, will the Senator yield for a question?

Mr. HUMPHREY. I yield to the Senator from Louisiana.

Mr. LONG. It seems to the junior Senator from Louisiana that one of the things which the Senate should consider most is not the higher brackets, because the taxes are very high on those higher brackets, so much as the exemptions. The ordinary wage-earner cannot take a deduction on the ground that he wants an extra automobile. If his child is sick, he cannot take a deduction unless the expense incurred is over a certain amount. If he entertains friends at his home, inviting them in for a party, he cannot deduct that. Those in the higher brackets can claim that it is necessary in connection with their business to have parties and to give entertainments, and to have a good time, and at the same time claim a deduction for it as a necessary expense connected with their business. For example, some people can even have yacht after yacht and pad the income-tax return by charging them off as an expense of doing business.

Mr. HUMPHREY. Not only can they do it, but they do it.

Mr. LONG. It is possible that some people use the yacht for pleasure, yet they always find some excuse for deducting the expense as necessary in connection with their business. They can have parties, they can entertain friends, on the theory, perhaps, that they are trying to obtain contracts in connection with their business, and that it is necessary in order that they may succeed in their business. They can write off such expenses as incidental to their business; whereas, on the other hand, if an average person in the low-income bracket, employed by another person, tried to do

the same thing he could not charge the expense off as a deduction.

Mr. HUMPHREY. I thank the Senator from Louisiana. He certainly has pointed out some very practical problems which are faced by the average man. What the Senator from Minnesota is trying to do, if I can state it in a nutshell, is to sell this idea to those who are worried about the corporate taxes and the taxes on those in the upper brackets. I am saying that the people who have three yachts can perhaps get along with two, and that the people who have four Cadillacs can perhaps get along with three. That is not too much of a sacrifice to ask.

Even when we get into the field of \$100,000 or \$200,000 incomes, there are half a dozen ways of converting earned income into capital gains, which I intend to discuss; and when one gets into the capital gains tax rate, he does not pay an 80 percent tax, he pays a 25 percent tax. But I submit that 95 percent of the American people cannot enjoy capital gains. They cannot enjoy that 25 percent rate, because they do not have sufficient income.

Mr. MILLIKIN. Mr. President, will the Senator yield?

Mr. HUMPHREY. I yield to the Senator from Colorado.

Mr. MILLIKIN. Does the Senator know how much revenue the capital-gains tax produces?

Mr. HUMPHREY. Yes; I am coming to that.

Mr. MILLIKIN. How much is it?

Mr. HUMPHREY. If the Senator will hold up and be patient, I am working into that.

Mr. MILLIKIN. Very well. The Senator has said that many people cannot participate in capital gains, because they do not have sufficient income. I believe he really has in mind the fact that many people cannot take advantage of capital gains, because they do not have the capital. In other words, if one owns stock, for example, and the stock goes up in value, and he sells it at a profit, after holding it for 6 months, that could be taxed at 25 percent, whereas a person might otherwise be in the 75-percent bracket; but on the other hand, if a person is not fortunate enough to own the stock in the first place, he cannot take the benefit of the capital gains for he has no stock to sell.

Mr. HUMPHREY. The Senator is correct. Mr. President, I want to conclude my remarks regarding the section on earned income, by simply saying that the need for revenue is urgent, and that we must impose higher taxes even on those in the lower-income groups, who are already heavily burdened. We cannot give away a half billion dollars of taxes at this time, especially when the major share goes to the wealthy. I, therefore, urge my colleagues to reconsider the reductions made in the House bill and to restore the original individual income-tax increases passed by the House. Mr. President, an appropriate amendment will be offered at the proper time to restore the House figure to the bill.

C. CAPITAL GAINS

Now, Mr. President, I come to that enticing and bewildering species of tax legislation known as capital gains.

A year ago, Mr. President, in the old Supreme Court chamber, I pointed out that the old feudal kings would comb the countryside for what they thought were the scientists of their day. They put these long-haired "scientific" men up in the attic of the castle and said to them, "We want you to convert base metal into gold." These men were called alchemists. Theirs was the science of alchemy.

Of course, after four hundred or five hundred years of fruitless searching on the part of the scientists of those days, they never did convert base metal into gold. We had to wait for the modern tax lawyer to do that. He has been able to do it. He can convert base metal into gold, and, believe me, he has been doing it. He has an ever-increasing productive program of how to convert earned income into capital gains. Earned income is always taxed at higher rates. How does one convert earned income and have it treated under the capital gains tax rate? Once we can do that, we really have something, Mr. President. When we increase the income-tax rates, as we have done two times and are preparing to do a third time, and when we increase corporate tax rates, as we are preparing to do, if we leave the capital gains rate where it is we promote the attempt to convert earned income into capital gains.

I do not claim, Mr. President, to be any thorough-going expert on the subject, but I found a study of it interesting and informative, and I have spent a good deal of time in the past year looking into capital gains.

The capital gains rate is now limited to a maximum of 25 percent, and profits from the sale of assets held for 6 months or more are given this preferential treatment. So far as I have been able to determine, the 6-month holding period accomplishes nothing except to reduce the taxes of speculators who will be able in one way or another to hold their gains for at least 6 months in order to obtain the preferential rate on long-term capital gains.

The low rate of tax on capital gains singles out for special treatment incomes which are characterized by no less evidence of ability to pay than are other types of incomes. At one time earned income was entitled to a special credit for tax purposes, but that day is now past.

Capital gains are heavily concentrated in the high-income brackets, and the preferential treatment accorded them will be especially favorable to the wealthy. At the \$3,000 level, capital gains amounted to less than one-half of 1 percent of total income in 1948; but they amounted to 25 percent at the \$500,000 level. Preferential treatment for capital gains is, therefore, nothing less than class legislation—legislation which reduces the tax burden of the wealthy classes.

The Secretary of the Treasury urged that the capital gains tax be increased. He pointed out that the starting rate on

ordinary incomes and the rate on long-term capital gains for individuals not subject to the alternative tax were increased substantially under the Revenue Act of 1950, and will also be increased again under the bill which is before the Senate. His recommendation was that the alternative tax rate be increased from 25 to 37½ percent. Why, Mr. President? He did this to put it into proper relationship with the earned income and corporate tax rates.

I wish to make expressly and concisely clear my point that there should be preserved in the bill the historic relationship between earned income tax rates and corporate tax rates and capital gains tax rates. If we do not preserve that historic relationship, we merely encourage the abuse of the tax laws to avoid the payment of taxes.

I am suggesting, and I shall offer an amendment, that the capital gains rate be made 35 percent. I have gone back over the increases in the Revenue Act of 1950 and the proposed increases in the present bill and added up the earned income tax rate increases, added up the corporate tax rate increases, and found that those two require that we raise the capital gains tax by about 9 or 10 percent. The present rate is 25 percent, and we are suggesting a 35 percent rate.

The House increased the capital gains rate to 28 percent for corporations and individuals, or by only one-fifth of the increase proposed by the Secretary of the Treasury. The bill before the Senate does not contain even this small increase. Why does not the Finance Committee believe in increasing tax burdens of recipients of capital gains, even in the slightest degree, as the burdens on wages and other incomes are increased? Why should that tax be left untouched when every other tax rate in the bill is being raised?

The reason given is that an increase of 3 percentage points will reduce rather than increase the revenues. On pages 62 and 63 of the report of the Ways and Means Committee of the House it will be found that \$800,000,000 will be lost as the result of the elimination of the capital gains tax increase recommended by the House.

Mr. MILLIKIN. Mr. President, will the Senator yield?

Mr. HUMPHREY. I yield.

Mr. MILLIKIN. Will the Senator be good enough to demonstrate how the adoption of the recommendation of the committee would not be beneficial?

Mr. HUMPHREY. I am coming to that.

The fact of the matter is that the yield from capital gains has not depended on the capital gains rate. Capital gains reported on tax returns have increased and decreased as the stock-market has gone up and down. Large capital gains were reported when the rates were high and low; and, conversely, varying amounts of capital gains were reported when the rate has remained unchanged for a number of years. The basic forces of the market are more controlling than the tax rate,

and it is erroneous to suppose that a relatively small change in the capital gains tax can upset the market.

The report on capital gains taxation was submitted to the committee by the Treasury Department, and I should like to ask any member of the committee whether the report substantiates the conclusion that a 3-percent increase will discourage trade in this area. Will any member of the committee make the report available to the Senate so that we can all give the matter the careful study which it deserves?

The failure of both the House and the Finance Committee to lengthen the holding period from 6 months to 1 year is also unwarranted. The holding period was originally designed to prevent taxation of capital gains which accrue over many years from being taxed as a lump sum in the year when the gains are realized. The holding period was originally 2 years, but it was gradually whittled down until, in 1942, it was reduced to 6 months. Last year the Senate committee tried to reduce it to 3 months. Capital gains are supposed to have something to do with capital improvements, with investments, with assets. To reduce the period to 3 months at a time when there was speculation of all sorts going on in the American markets was to play into the hands of speculators. I submit that the period of time ought to be a year. If one makes an investment which is worthy of being called an investment, a year in which to hold it for a special preferential tax treatment ought to be a minimum.

Mr. President, there is no justification for taxing a profit from an investment held for less than 1 year at a preferential rate any more than to give such treatment to a jeweler, a druggist, a grocer, or any other merchant who turns over his stock of merchandise only twice a year. In other words, why do we not give such a preferential rate to the average merchant if he turns over his stock twice a year? We do not.

The individual income tax is figured on an annual basis, and there is no hardship imposed if the assets are held for less than 1 year. The 6 months holding period provision benefits mainly the speculator; the genuine investor who holds his stock for long periods for investment purposes derives no benefit from a short holding period.

An increase in the capital-gains tax is required not only on the ground that all other incomes have been subject to higher tax rates since Korea, but also on the ground that it is needed to protect the basic equity of the individual income tax.

I repeat what I have pointed out in my earlier comment, that when tax rates are high and one type of income is subject to a lower rate, it is natural that individuals will try to convert ordinary income into the type of income which is given preferential low-rate tax treatment. The courts have for years wrestled with this problem, but the cases of tax avoidance keep increasing. When I say "avoidance" I mean converting prof-

its into capital gains. What are we doing with that problem here? We are adding to the temptation to convert ordinary income into the type of income which is given preferential treatment.

What is more important—and this bill affords one of the best examples—ordinary incomes are converted into capital gains by legislative action.

Mr. LONG. Mr. President, will the Senator yield?

Mr. HUMPHREY. I yield.

Mr. LONG. Of course, to be entirely fair about this picture, I believe the Senator would agree that there are some transactions taxed as capital gains where there actually was no income at all. For example, if a man owns a home he bought for \$5,000, and that house today would cost \$10,000 to build, if he sold the house, he would have to pay income on what appeared to be a \$5,000 gain, even though he might later buy another house of the same value with that money.

Mr. HUMPHREY. The Senator is correct.

Mr. LONG. Of course, the bill proposes to make at least some allowance for that kind of case, and I believe that is proper. On the other hand, if the person who had a house which cost him \$5,000 12 years ago were to sell the house today with the dollar worth only 50 cents compared to what it was worth 12 years ago, and move into an apartment, or at least not buy another home with the same money, he would pay income tax on something which was not income at all, but merely an inflation of money.

Mr. HUMPHREY. I think the Senator is making a very valid observation.

Mr. LONG. There are many situations in which the Government taxes the proceeds of transactions as capital gains when they are only ordinary income. There is no real distinction between them and any other income.

Mr. HUMPHREY. I thank the Senator from Louisiana for his valuable contribution. That is something which is of value to a committee particularly, in studying the subject of taxation.

Mr. President, while the taxes on ordinary incomes of individuals and corporations are increased by almost \$4,500,000,000, capital gains treatment is accorded to other ordinary incomes in this bill. I shall have more to say about these new loopholes later. It is sufficient to note at this point that, when we fail to move up the capital gains tax as the tax on ordinary incomes increases, we run the risk of undermining the individual income tax base, that is, through the conversion of ordinary income into capital gains. In other words, if we keep whacking away at this ordinary income base, even though we have high rates, we will find that we shall have nothing to draw from, because ordinary income is being converted into capital gains, which are being given the preferential type of treatment.

Mr. MILLIKIN. Mr. President, will the Senator yield?

Mr. HUMPHREY. I yield.

Mr. MILLIKIN. I should greatly appreciate it if the Senator from Minne-

sota would give us a rather full illustration of how the ordinary income base would be whittled away by the process which he describes.

Mr. HUMPHREY. I shall be glad to do so. For example, if a man has an income of \$500,000 a year, he can take part of that \$500,000 a year income and make some investments with it, hold the investments for 6 months, and sell them and the profits become taxable at 25 percent instead of the high rate of 94.5 percent which would be the tax imposed on a man with an income of \$500,000 a year. In other words, when he gets into that high-income bracket with the high-rate schedule it is perfectly obvious that one of the desires such a man has is to convert his income into an asset which can be sold and treated as a capital gain and thereby be taxed at the 25 percent rate. I think that is one of the classic examples as to what has happened again and again, and I shall have more examples to cite as I go along.

Mr. MILLIKIN. Mr. President, will the Senator again yield?

Mr. HUMPHREY. I yield.

Mr. MILLIKIN. I think there is a fallacy in the assumption of the Senator that all capital transactions represent profits. Suppose the investor does not make a capital gain.

Mr. HUMPHREY. If he does not make a capital gain, of course, he does not pay any tax.

Mr. MILLIKIN. Of course.

Mr. HUMPHREY. Not only that, but he may deduct his loss.

Mr. MILLIKIN. Yes, if he has something against which to deduct it.

Mr. HUMPHREY. That is correct.

Mr. MILLIKIN. Let me make a suggestion to the Senator. When the individual gets the proceeds from a sale on which he has realized a capital gain, what does he do with it? He either invests it again in capital, does he not, in something that yields some kind of income?

Mr. HUMPHREY. Indeed.

Mr. MILLIKIN. That will be caught with the income tax.

Mr. HUMPHREY. Let us say, for example, that a man has an income of \$500,000 a year. Let us say he takes \$250,000 of that and buys with it an apartment house.

Mr. MILLIKIN. He does not have that much left after he is taxed the 90 percent.

Mr. HUMPHREY. Let us assume that he accumulates that much, and there are plenty who have done so.

Mr. MILLIKIN. Out of the 10 percent that is left to him after the 90 percent tax?

Mr. HUMPHREY. Yes, over the years.

Mr. MILLIKIN. Does the Senator from Minnesota mean that there are men who have a \$500,000 a year income who can accumulate \$500,000 out of the 10 percent that is left to them after the 90 percent tax?

Mr. HUMPHREY. I will say that I mean just that. We read about some great man who passes away, and his estate turns out to be worth \$5,000,000 or \$10,000,000 or more. How did he get that money? Did he get it by swatting

flies? He got it because he was able to keep it from the income he received. He got it because he was able to make money on certain investments which he made. The receipts accrued, and the result was a good, sizable estate when he died.

Mr. MILLIKIN. Men with sizable estates got them, with some exceptions, before we had the income tax as we now have it. When the Senator from Minnesota talks about a \$500,000 income man, considering that we take from that income about 90 percent, and when he says that then he is going to make vast investments with the remainder and at the same time continue his normal activities and his normal ways of life, whatever they may be, I suggest that the distinguished Senator has entered completely the field of fantasy.

Mr. HUMPHREY. I suggest to the Senator from Colorado that the Senator from Minnesota is not in the field of fantasy. The Senator from Minnesota is only citing what takes place day after day. Men are making money, despite the high rates, and they are able to convert that money into a tax base which is less onerous, less burdensome, than the earned income tax. If the Senator from Colorado, is saying to me that the executives and prominent business and professional leaders of our country, who are well paid, are not able to accumulate wealth, I want him to produce the evidence, and not merely a statement. The fact of the matter is that there is plenty of wealth. Those men own fine homes and big farms. Many of them have great concessions in mines, oil, timber, or land. This is happening in my generation. It happened in the Senator's generation. It will happen in the next generation. It is ludicrous to say that people are not able to accumulate wealth in this day and age, because they do.

Mr. MILLIKIN. I suggest to the distinguished Senator that on the case he postulated, it is completely ludicrous to suggest that if we leave a man 10 percent of his income we can expect him to accumulate wealth.

Mr. HUMPHREY. After the first \$80,000.

Mr. MILLIKIN. Take the effective-burden tables and see what is left for the \$500,000 man.

Mr. HUMPHREY. That is correct.

Mr. MILLIKIN. I suggest that that is true in most instances individually, as well as under the Senator's favorite method of aggregating everything and speaking of averages. One cannot accumulate great wealth when he is allowed to retain only 10 percent of his profits.

Mr. HUMPHREY. When we come to talk about stock options, we shall show how some of those men, according to the Wall Street Journal, not only get a fairly good salary, but when they want something extra they get a stock option, which they are able to convert, not into income, but into capital gains.

I also remind the Senator from Colorado that when a man has an income of \$500,000 a year he can charge off many things which the average Joe cannot

charge off. The average man cannot charge off his car, his rowboat, or his entertainment. But when a man has an income of \$500,000 a year he has a good lawyer. And when he has a good lawyer, he finds out how to charge off the yacht—not the rowboat. He learns how to include the Cadillac as a part of the business, and not just something in the garage which is an expense to the family. It becomes an expense in the enterprise. Such a man learns how to incorporate himself, as motion-picture actors have found out how to incorporate themselves. He learns a million and one things which the average American citizen has never dreamed of.

All I ask my friend from Colorado to do is to produce living evidence—or the obituary evidence—with respect to people who earn \$500,000 a year and who do not drink it up or dissipate it. I am referring to the average wholesome, clean-cut hard-working man who gets from \$250,000 to \$500,000 a year. I want the Senator from Colorado to show me why he is unable to accumulate anything. According to the Senator from Colorado he is just living from hand to mouth, with the little money he has left—barely enough to take care of his knitting. I believe that those in that income bracket are doing all right.

Mr. MILLIKIN. I am not making statements. I am just talking elementary arithmetic, which I assume the Senator studied along with the rest of us. If a man has a \$500,000 a year income, and he is permitted to retain only 10 percent of it, he cannot engage in enterprises requiring vast wealth, such as the Senator has described. True, he can hire a lawyer. True, he may have all kinds of opportunities to make money out of the \$50,000 which is left. But he also has the big estate to which the Senator refers, to maintain. That involves the employment of many persons. He has three Cadillacs, as the Senator describes. They must be garaged, oiled, greased, and driven. I suppose, not being a member of the administration, he has to buy a pastel mink coat for his wife occasionally. That sets him back a little. When he gets through, he probably has nothing left. He cannot indulge in vast projects involving investment of large sums of money out of spendable income.

Mr. HUMPHREY. The trouble with this country is that the people have been accustomed to living as their neighbors live. The Democrats have never had mink coats. They became accustomed to seeing some of their Republican friends with mink coats. They did not know how to get one, and some may have succumbed in a way which was a little crude.

Mr. MILLIKIN. They do not know how to get them, yet they get them, in a very crude way.

Mr. HUMPHREY. Indeed. But let me point out to my friend from Colorado that they learned from those who are a little more slick. They learned from people who found out how to get mink coats and charge them up to the business, to the corporation. They learned how to get yachts and charge

them up to the corporation. They have learned, for example, that one can maintain a suite of rooms in the Mayflower Hotel which he never even uses, and charge it to the business as a tax-deductible item.

If the Senator wants to put an advertisement in a newspaper he must pay for it. But if a businessman puts an advertisement in a newspaper, it is tax-deductible. So let us not condemn alone some of the poor folks who have become a little confused and crude. They have not had an opportunity to acquire the necessary culture in the art of "slickering" the Government out of tax revenues.

Mr. MILLIKIN. They have had 18 years of education, and they are learning rapidly and on a wide front. One cannot pick up a newspaper without having accounts of the experts in those rackets bursting in his face, with their crookedness and their unethical conduct. The Senator's party has had 18 years to eliminate those things. How much time does he want?

Mr. HUMPHREY. Let me say to my friend from Colorado that one way to eliminate that condition is to begin to put the tax law on an equitable basis.

Mr. MILLIKIN. Mr. President—

Mr. HUMPHREY. Wait a moment. Let me say to my good friend from Colorado that the smoke screen which has been laid down, of deep-freezes, mink coats—

Mr. MILLIKIN. I did not mention deep-freezes.

Mr. HUMPHREY. All those things are insignificant when compared to the robbery that can take place legitimately. All it is necessary to do is to legalize a certain practice, and then it becomes legitimate. We legalize the opportunity for people to avoid their fair share of the burdens of the cost of government and the cost of defense of their country. If we settle down and talk about the loopholes in the tax bill, we shall find that while there have been a few scoundrels in this administration, and while there have been a few scoundrels in other administrations, the amount which has been lost in terms of public revenue which they have been able to steal—if they have been able to steal any—and it is still only allegation—is "peanuts" compared with what is lost in some of the loopholes which the Senator from Minnesota expects to discuss very soon.

For example, what moral, ethical, economic, or political justification is there for a 27½ percent oil depletion allowance? Why should the oil operators be able to get the oil wells paid for a dozen times? That is not stealing, because we legalize it. We shall talk about that subject in more detail as we go along.

Mr. MILLIKIN. Mr. President, will the Senator yield?

Mr. HUMPHREY. I yield.

Mr. MILLIKIN. Of that the Senator may be assured. I merely wish to stick to the present subject, which includes the Senator's allegation that the people to whom he refers, in the higher income brackets, rent large suites of rooms, and indulge in large expense accounts. I get

a picture of bacchanalian orgies which form a basis for deduction from their expense accounts. Let me drop a gentle hint into the mind of the distinguished Senator from Minnesota. That situation is entirely within the control, under the tax laws, of the Secretary of the Treasury. That agency, too, has had 18 years opportunity to educate itself as to how to stop it.

Mr. HUMPHREY. Let me say to the Senator from Colorado that a great deal of manipulation can be done under the heading of "business expenses." Apparently business is not defined. One can surely make a great deal of monkey business out of the definition of business. That has happened all too often. However, business expenses are deductible. Let us not go too far. There are legitimate business expenses. I am simply dealing with the question of capital gains. The contention is made that with the high income-tax rates, a person in the higher income brackets simply could not accumulate any wealth. I say to the Senator that despite the apparent logic of his argument, wealth has been accumulated and is being accumulated. The Senator from Colorado knows it as well as does the Senator from Minnesota.

Mr. MILLIKIN. Mr. President, will the Senator yield?

Mr. HUMPHREY. I yield.

Mr. MILLIKIN. I suggest to the Senator that he must make a choice as to where he wants to get revenue. If he wants to get revenue out of capital gains, the way to get it is to shorten the period and decrease the rate.

Mr. HUMPHREY. That is the Senator's opinion.

Mr. MILLIKIN. If he were to lengthen the time and increase the rate, and thus sterilize the movement of capital—if that is what the Senator wishes—he would not be helping the income base with greater income, and thus we would not be collecting any more income taxes at either end.

Mr. HUMPHREY. The Senator's argument is persuasive, but it is not conclusive. He is simply saying that if we raise the tax rate or extend the period, we dry up the sources of revenue.

Mr. MILLIKIN. I did not say that.

Mr. HUMPHREY. That is what the Senator implied.

Mr. MILLIKIN. Oh, no.

Mr. HUMPHREY. The Senator said that revenues would be severely limited.

Mr. MILLIKIN. No; I did not even say that.

Mr. HUMPHREY. What did the Senator say?

Mr. MILLIKIN. I say that the lower the rate and the shorter the period of time, the greater the amount of capital transactions, and therefore the greater the amount of capital gains will be, if that is what the Senator wants. I then said that if that is not what the Senator wants, he can picture some relationship which he has not explained between the capital gains tax and the income tax.

Mr. HUMPHREY. Yes.

Mr. MILLIKIN. I said that if he pictures the relationship there, and if he wants to sterilize the capital movements of the country by lengthening the pe-

riod it would have no effect on the income tax bases except a deleterious effect.

Mr. HUMPHREY. Is that not what I said the Senator from Colorado had pointed out? I said the Senator from Colorado had pointed out that if we extended the duration and raised the rates it would have a deleterious effect.

Mr. MILLIKIN. I agree entirely with the Senator.

Mr. HUMPHREY. I tell the Senator from Colorado that he is wrong.

Mr. MILLIKIN. Mr. President, first we reach an agreement and then the Senator from Minnesota tells me I am wrong.

Mr. HUMPHREY. I pointed out to the Senator from Colorado that the study by the Treasury Department and by the House Committee on Ways and Means revealed the fact that there is no relationship of capital gains and the accumulation of capital gains to the tax rate. The relationship has been primarily to the market and to the factors that affect the market.

Mr. MILLIKIN. Is not the capital gains rate a factor in the market?

Mr. HUMPHREY. Yes, but not a conclusive factor. I want to say further that once we increase the corporate tax and the individual income tax it is imperative that we increase the capital gains rate, in order to maintain the historic balance. I ask the Senator from Colorado to give me some evidence which will show that if we raise the rate we actually hold down capital gains transactions.

Mr. MILLIKIN. Does the Senator from Minnesota want some evidence?

Mr. HUMPHREY. Yes.

Mr. MILLIKIN. No fooling?

Mr. HUMPHREY. No fooling.

Mr. MILLIKIN. Here are the rich, pot-bellied fellows with incomes of \$500,000 a year, whose incomes are reduced by taxes to \$50,000 a year. They want to get rich on capital gains. I assume they have something left. They want to accumulate as much as they can out of what is left to them after they have paid their income tax. Let us assume that it is generated out of property which pays them the income. They want to make money by capital transactions.

Mr. HUMPHREY. Yes.

Mr. MILLIKIN. Is it not inconceivable to say that they will not turn their property over oftener via the capital gains route if they have a lesser period than a greater period, and a lower rate than a higher rate, if they are actuated by the motives which the Senator from Minnesota assumes?

Mr. HUMPHREY. The Senator from Colorado sets up a false standard. The Senator wants to talk about a situation which he designs. Let us assume that there are tax rates only as follows: The earned income tax rates which are contained in the new bill and the corporate tax rates in this bill, and let us assume that the capital gain rate is advanced 3 points, or to 28 percent.

When a man has a choice between paying a high earned income tax, a high corporate tax, or a low capital gains tax, if he is going to make any trans-

action he will use the 28 percent rate. The Senator says he will just quit doing business.

Mr. MILLIKIN. No, no.

Mr. HUMPHREY. We have been hearing that argument for a long time.

Mr. MILLIKIN. Mr. President, will the Senator yield?

Mr. HUMPHREY. Yes.

Mr. MILLIKIN. I merely say that if a man wants to engage in a capital transaction, or if he is thinking about it, he will be more tempted to do so if the rate is 25 percent instead of 28 percent, or 20 percent instead of 25 percent.

Mr. HUMPHREY. Make it 5 percent.

Mr. MILLIKIN. Make it 5 percent. Then there would be a constant temptation.

Mr. HUMPHREY. How much tax would be collected?

Mr. MILLIKIN. If the Senator's purpose is to get revenue the man should be enticed to make more frequent turnovers.

The PRESIDING OFFICER (Mr. HUNT in the chair). The Chair would suggest that Senators address the Chair. It would help the Official Reporter considerably.

Mr. HUMPHREY. I believe it would help the debate.

I conclude my remarks on the capital gains portion of the bill by suggesting that lengthening the holding period to 6 months and increasing the capital gains rate for individuals and corporations to 35 percent would produce \$300,000,000 of revenue. In times like these we cannot afford to give up this much revenue when the case for a tax increase is so strong.

II. SUGGESTED LOOPHOLE-CLOSING PROVISIONS

A group of Senators will present to the Senate some suggested loophole-closing amendments. I believe it is known that several of us have been studying the House tax bill, and several of us have been watching to the best of our ability the actions of the Senate Finance Committee. We have been contemplating submitting certain amendments to the present bill.

The changes in the bill which I have suggested thus far would raise a total of almost \$1,400,000,000, and would increase the yield of the bill to \$6,900,000,000. In other words, the changes in the bill which I have suggested thus far, namely, the changes in capital gains tax, the changes in the corporation tax, and the changes in the earned income tax, if adopted, would raise an additional \$1,400,000,000 a year. We will need the additional revenue. It will not jeopardize the solvency of our economy, and will not in any way result in injury to the taxpayer. The result I have outlined would still fall far short of the amount of revenue needed to balance the budget. I submit that billions of dollars more could be raised by determined effort to close the loopholes.

I believe that Senators will agree with me when I say that a man in the street, however unsophisticated he may be, endorses a pay-as-you-go policy. He is willing to be taxed to pay for his own defense. But he insists that taxes be levied fairly, and that everybody should

shoulder the burden according to his ability to pay.

I want to emphasize this point because I believe it is important. When we increase the tax burden of a married man with two children and with an income of \$60 a week by \$1 a week, we are denying him the use of a dollar which would otherwise go for food, clothing or lodging. There is little room for anything else in his budget. This sacrifice can and will be borne by our wage earners and farmers if they are assured that others are paying their fair share.

We cannot in good faith ask the rank and file to make a substantially larger tax contribution for the defense effort when a chosen few can take advantage of glaring loopholes in the tax laws. It would violate every test of equal sacrifice to ask the man in the street to pay higher excise and income taxes when the rich become richer through our failure to close loopholes.

What are the most important loopholes?

I know that I will soon get into active debate with some of my colleagues, but I shall refer to four categories.

First, the unbelievably generous depletion provisions hand the oil and mining interests about three-quarters of a billion dollars each year. Last year the President called this loophole the most glaring in the tax laws. Congress did nothing about it. This year, with tax rates going still higher, this loophole becomes more intolerable.

Second, the income-splitting provisions enacted by the Eightieth Congress confer unwarranted tax benefits on the well-to-do. People in the lowest tax bracket gained nothing from this provision. At the \$500,000 level it reduced taxes of a married person by \$25,000. We cannot afford to give such large tax reductions to the higher income classes in times like these.

Third, at the same time that wage earners are paying every last cent of their taxes because it is withheld from their pay envelopes, billions of dollars of interest and dividends are evading taxes. This critical evasion must be stopped. The best way to do this is to withhold the tax from interest and dividends just like we do on wages and salaries.

Fourth, the estate and gift taxes are in a pitiful state. It is unbelievable that, in a country as wealthy as ours, these taxes raise little more than three-quarters of a billion dollars. The Secretary of the Treasury presented a plan to the Congress last year for tightening up these taxes, but nothing was done.

Mr. KERR. Mr. President, will the Senator yield?

Mr. HUMPHREY. Yes.

Mr. KERR. Is it possible that the health of the country might be a contribution toward the small amount of the inheritance tax?

Mr. HUMPHREY. I believe it is possible that it may be a contributing factor, but I do not think it is the controlling one.

Mr. KERR. Mr. President, will the Senator yield at this point, in order that I may request unanimous consent to have a quorum call had, without causing the

Senator from Minnesota to lose the floor?

Mr. HUMPHREY. I shall be very grateful for that, Mr. President.

Mr. KERR. Then, Mr. President, I ask unanimous consent that I may suggest the absence of a quorum and that there may be a quorum call, without causing the Senator from Minnesota to lose the floor.

The PRESIDING OFFICER (Mr. HUNT in the chair). Is there objection? The Chair hears none, and the clerk will call the roll.

Mr. HUMPHREY. I thank the Senator from Oklahoma very much.

The legislative clerk proceeded to call the roll.

Mr. KERR. Mr. President, I ask unanimous consent that the order for a quorum call be rescinded and that further proceedings under the call be suspended.

The PRESIDING OFFICER. Is there objection to the request of the Senator from Oklahoma? The Chair hears none, and it is so ordered.

Mr. HUMPHREY. Mr. President, I was speaking of the estate and gift taxes and I said they should be made to produce more than they now produce.

A tax bill of the size being considered here would be deficient without a thorough revision of these taxes.

These four items alone add up to almost \$4,000,000,000. I have not mentioned others, such as the loopholes in the capital-gains provisions, the weak tax provisions for life insurance companies, and the tax hand-outs to the large corporations through the accelerated amortization provisions. A determined effort to close all the loopholes could therefore be made to yield billions more. I realize that the need for speed will preclude the adoption of all of these loophole-closing provisions. Nonetheless, there is more than enough to choose from to raise the yield in the bill now before us substantially, and we expect to offer some of them as amendments to the bill.

A. PERCENTAGE DEPLETION

I desire now to refer to percentage depletion. I made some general comments about it a few moments ago.

The first and most important loophole which should be corrected is percentage depletion. At present rates and income levels, percentage depletion saves oil and mining interests at least \$750,000,000 a year and 85 cents out of every \$1 goes to an oil company. Such tax relief cannot be justified either on equity grounds or on economic grounds. It is no wonder that the profits of the oil industry are expected to exceed \$2,000,000,000 this year, and that the stocks of oil companies have been in the lead of this year's bull stock market.

Real depletion to an oil well or mine is simply what depreciation is to machinery or buildings used in a business. The theory is that oil wells are exhausted in the process of working them and producing income. Consequently, part of every dollar received is not taxed because it is only a return of the money originally invested. This kind of depletion, however, is already fully covered by section 23 of the Internal Revenue Code.

Percentage depletion of oil and gas wells was first allowed in 1925. The Treasury has been pointing out the inequity and pointlessness of this subsidy to the oil industry for at least 13 years.

Percentage depletion, as applied to oil and gas, simply means an income-tax deduction of 27½ percent—over one-fourth—of the gross income from the property, or one-half of the net income whichever is smaller.

This bonus has nothing to do with the cost the owner is entitled to recover, and continues as long as the oil or gas well is in operation. The owner may recover the cost of his investment a hundred-fold through these so-called depletion allowances.

Still more taxes are lost through excessive depletion deductions of individual oil-well owners. The Treasury recently cited a number of cases where wealthy individuals, with annual incomes averaging over \$1,000,000 a year, paid an average income tax of only 22½ percent. For the citation for this statement, Mr. President, see page 59 of the hearings before the Committee on Ways and Means, Revenue Revision of 1950.

Again the Treasury has shown that in 1947 the oil companies worth over \$100,000,000 claimed percentage depletion of more than 13 times the actual depletion on an original-cost basis. In plain language, that is practically equivalent to allowing a businessman to recover the cost of his plant 13 times through tax depletion or depreciation deductions. As long as we are going to play that game, I suppose it is only fair to allow taxicab drivers to deduct the cost of their cabs 13 times for income-tax purposes. The cab drivers certainly need it and probably deserve it just as much as do the oil companies.

Percentage depletion does not end there, however. Special provisions allow oil companies to deduct development costs, costs of a kind that cannot currently be deducted by other businesses for tax purposes. Their percentage depletion is allowed on the same expenses in the same year. As the Secretary of the Treasury has said, this is a double deduction for the same costs, once when they are incurred, and again under percentage depletion.

The following statement of President Truman is of interest here. In his 1950 tax message he said:

I know of no loophole in the tax laws so inequitable as to the excessive depletion exemptions now enjoyed by oil and mining interests.

And the President documented his charges as follows:

For example, during the 5 years 1943-47, during which it was necessary to collect an income tax from people earning less than \$20 a week, one oil operator was able, because of these loopholes, to develop properties yielding nearly \$5,000,000 in a single year without payment of any income tax.

Mr. DOUGLAS. Mr. President, will the Senator yield?

Mr. HUMPHREY. I yield.

Mr. DOUGLAS. Do I correctly understand that one operator earning \$5,000,000 in a single year did not pay any income tax?

Mr. HUMPHREY. That is correct. It is in the President's message, and we must assume the veracity of his message, because it was documented by the Treasury Department. I do not think we should generalize from it, because I am going to point out where there is a legitimate function—

Mr. LONG. Mr. President, will the Senator yield?

Mr. HUMPHREY. I yield.

Mr. LONG. I am sure that the Senator understands that in the oil and gas business some allowance is necessary because of the speculative nature of the exploration for oil and gas, and a depreciation allowance on machinery is made on the theory that over a period of time the machinery will be worn out.

Mr. HUMPHREY. That is correct.

Mr. LONG. And if a person has not realized any income, we allow for the fact that his machinery is depreciated, and over a period of time the assets will be used up. Of course, the 27½ percent is partly related to the risk in the oil and gas business. It is my understanding that 15 out of every 16 exploratory wells are dry holes of no commercial value.

Mr. HUMPHREY. Of course, the Senator knows that once they make a hit they can deduct those losses.

Mr. LONG. That is true. But I am sure that if the Senator from Minnesota had only \$100,000, and was in the oil and gas business and spent \$100,000 drilling a well, and the well turned out to be a dry hole, he would be out of business.

Mr. HUMPHREY. Yes. I want the Senator from Louisiana to hear me out on this question. I recall that the Senator from Louisiana a year ago made a very distinct contribution to the debate on the depletion allowances. We are now opening up the area to discuss that subject. We are intending to offer an amendment on that point. I think the Senator will find that the amendment is not directed to the extinction of the industry, but toward moderation in the tax program.

Mr. LONG. I have oftentimes had it pointed out to me that most successful gas and oil operators have at times been broke in their efforts to carry on the oil and gas business. Some may make \$5,000,000, as the Senator says, but most of those who have engaged in the business have known what it is to have gone broke at some period.

Mr. HUMPHREY. Yes.

I continue to read from the President's message:

In addition to escaping the payment of tax on his large income from oil operations, he was also able through the use of his oil-tax exemptions to escape payment of tax on most of his income from other sources. For the 5 years his income taxes totaled "less than \$100,000 although his income from non-oil sources alone averaged almost \$1,000,000 each year."

Mr. DOUGLAS. Mr. President, will the Senator yield?

Mr. HUMPHREY. I yield.

Mr. DOUGLAS. That was in addition to his income from oil sources?

Mr. HUMPHREY. In addition to the \$5,000,000. As I said, and I want my

remarks to be properly interpreted, this is an example which is unusual. It is not typical, it is atypical. But it shows what can happen under the tax structure. It shows how some can get by without paying their fair share of taxes.

I digress to say that I am not against a person making money. There is nothing I would rather see for myself or for my colleagues and my friends. I believe in the profit system. I believe in it so much that I would like some of it myself, and I should like more people to share in it. I simply say that when we take on a heavy defense burden, when we start to apply a superstructure of taxes for defense, we should level the ground, that is, even up the hills and valleys as best we can, and take out as many of the quirks and kinks as possible in building the tax structure. We should secure a proper base, and then as we build on it a tax structure to pay for the fabulous cost of defense we will be building on a more firm foundation, on a foundation which has public support.

President Truman continued in his statement:

I am well aware that these tax privileges are sometimes defended on the ground that they encourage the production of strategic minerals. It is true that we wish to encourage such production. But the tax bounties distributed under the present law bear only a haphazard relationship to our real need for proper incentives to encourage the exploration, development, and conservation of our mineral resources. A forward-looking resources program does not require that we give hundreds of millions of dollars annually in the tax exemptions to a favored few at the expense of the many.

The examples given above could and have been repeated and expanded indefinitely. Presidents, Secretaries of the Treasury, general counsels of the Treasury, and dozens of others have given us the real facts time and time again. Unchallengeable statements against percentage depletion in the printed reports of many hearings before the House and Senate would fill volumes.

All the arguments for percentage depletion have been refuted again and again, while the arguments against it remain almost unanswered and unanswerable.

A dean of tax experts and former counsel of the Treasury, a man known by many of my colleagues in the Senate, Mr. Randolph Paul, has well summed up the case against percentage depletion in oil and gas as follows:

[Subsidies] are inexcusable when they serve no public purpose and indiscriminately favor entire industries which are in an established financial position far beyond need of special Government help. For then their effect is to shift part of the tax burden to the shoulders of others who are less able to bear that burden. A sound tax system will permit no one segment of business to ride roughshod over others.

This was a statement by Randolph Paul taken from his book published in 1947 entitled "Taxation for Prosperity," page 307.

Mr. LONG. Mr. President, will the Senator yield?

Mr. HUMPHREY. I yield.

Mr. LONG. The Senator from Minnesota realizes, I am sure, that the enormous reserves of petroleum this Nation has are viewed as one of the principal elements of this Nation's strength in a period of defense.

Mr. HUMPHREY. That is correct.

Mr. LONG. And that there is a legitimate purpose in expanding and developing the known reserves of our fuels, especially since they might be very much needed in the event of a worsening of the present national emergency.

Mr. HUMPHREY. I think that is an entirely appropriate analysis and observation. That was taken into consideration by every one of the Senators with whom I have talked about the depletion problem in connection with the tax bill, because it is perfectly true that the exploration and development of our oil reserves are absolutely essential to our defense.

But I should like to point out how much coal we have which sticks up out of the ground. We have enough coal for perhaps 4,000 years, and yet we have added in this bill a little depletion allowance—5 percent in addition—with respect to coal. That is not needed for exploration. The problem we have with respect to coal is what to do with it. We have coal running out of our ears. We have so much coal that frequently our miners work in part-time shifts.

Mr. LONG. Mr. President, will the Senator yield?

Mr. HUMPHREY. I yield.

Mr. LONG. I am sure the Senator realizes that the President's recommendation for reducing the percentage depletion originally came at a time when this Nation was not confronted with a national emergency, and when there was not the great need for development of oil reserves that we presently have. The situation has substantially worsened since that time.

Mr. HUMPHREY. I would say that is true, and the President was, I believe, asking for the abolition of the depletion provision. I am not sure about that.

Mr. LONG. He was asking for its abolition.

Mr. HUMPHREY. That was our intention. Some of us felt a year ago that it should be abolished. That is not our position today. I desire to be reasonable about this matter. It is not a question of "getting" somebody. It is a matter of having justice and fair play. I believe we should continue to make some exploration for national security. I am pointing out what I consider to be abuses of the tax structure and how they have worked to the disadvantage of the general public.

Mr. LONG. Mr. President, will the Senator yield?

Mr. HUMPHREY. I yield.

Mr. LONG. The Senator realizes, I am sure, that in a speculative business, the kind of person he was describing in the high-income tax bracket, who was already taxed, let us say, at 80 or 90 percent of his income, could not very well be expected to take a risk when there was a probability that he would not find oil unless there were some allowance which would make it possible for him to get back his money, or to make money if he were successful with

what might be called a gamble with nature, which it is when a person explores for oil.

Mr. HUMPHREY. Yes. The Senator is very well informed in this area of our tax bill, as well as in other areas. The Senator knows that there are depreciations, and there are cost expenditures which are deductible, and there are development costs which are deductible. I do not think anyone wants to be unfair about this thing. I am approaching the problem as one who is seeking light. I am giving the Senator my point of view on the subject. As I have said to the chairman and other members of the committee, I feel that there is a wholesomeness by having debate and argument which develops the case and gives us a chance to legislate intelligently and well in what is pictured as being an area of taxation where there is evidence of inequity.

Mr. MONRONEY. Mr. President, will the Senator yield?

Mr. HUMPHREY. I yield.

Mr. MONRONEY. The Senator has cited examples of men who have made millions of dollars. I think the 27½ percent depletion allowance has been very important in preventing hundreds of thousands of farmers, small land owners and royalty owners from losing their one asset, which is the oil that nature placed under their ground. Once that oil is taken out there will not be any more oil put in at the bottom of the wells. So, if we wipe this allowance off the books or reduce it, we penalize severely hundreds of thousands of small land owners who receive royalties. The fact that there may be one or two examples of wealthy men who may have found ways of escaping taxation should not be used as a legitimate excuse for wiping off the books a law which has been there for 30 years and has resulted in American oil exploration reaching the highest point reached by oil exploration in any other place on the earth.

Mr. HUMPHREY. The Senator no doubt heard me say that I did not call the example which I was citing typical. It merely pointed up what I consider to be an abuse of the tax structure. I did not state it as a generalization.

As the Senator from Illinois [Mr. DOUGLAS] has said, I am leaning over backward on the question of the oil depletion allowance, because I recognize the seriousness of oil development and production today. But despite the argument which is being made about the small operators, when we make a depreciation allowance, an allowance for other costs and expenses, when we make a development cost allowance, and still permit a sizable allowance for depletion—one amendment which will be offered will still permit a sizable allowance—we are not being too unfair. In many instances depletion occurs to soil, just as it happens in connection with a well. Also, many of the wells continue on for ever and ever—

Mr. MONRONEY. O Mr. President—

Mr. HUMPHREY. They continue beyond capital costs.

Mr. MONRONEY. If the allowance did not continue, no one would ever drill a well. Why risk half a million dollars

in a wildcat well if one is not going to get the money back?

Mr. HUMPHREY. Some poor farmer is not going to risk half a million dollars, because there is not a poor farmer in the United States who has half a million dollars. The record reveals that depletion allowances go on forever.

Mr. MONRONEY. But the oil does not.

Mr. HUMPHREY. The allowances continue so long as the oil comes out of the ground.

Mr. MONRONEY. Oil production is on a rapidly declining curve. The first year is flush production, and its volume is usually large. The second year it is always less, and the third year much less. At the end of 5 years the flush production is gone, and the operation becomes a stripper operation producing anywhere from 5 to 10 barrels a day, which barely pays the cost of lifting the oil to the surface.

If we repeal the depletion allowance, we prevent the maximum recovery from the stripper wells. Without the 27½ percent depletion allowance on stripper wells, no one would risk the money to recondition them, water-flood them, or repressure them, so as to obtain the ultimate recovery out of the ground. During the last war we had to subsidize stripper wells to the extent of 5 cents a barrel. Oil was bringing \$1.30 a barrel at that time. Perhaps for the want of 5 cents, a well would be abandoned forever.

Mr. HUMPHREY. It might be well to pay an open subsidy to keep the wells in operation and provide a profit for those at the bottom of the heap. That might be better than to permit those who have an unusual opportunity to reap a tremendous harvest at public expense.

Mr. MONRONEY. I think the examples which the Senator has shown of the few should not be used as a reason for taking away the cornerstone on which the oil industry has been built.

Mr. DOUGLAS. Mr. President, will the Senator yield?

Mr. HUMPHREY. I yield.

Mr. DOUGLAS. The junior Senator from Oklahoma has made a very eloquent plea for the small farmer, who receives royalties from oil drilling. But is it not true that the average royalty is approximately 12½ percent? So it is only 12½ percent that is passed around widely. The other seven-eighths is more or less concentrated. Is not the junior Senator from Oklahoma weeping for the plumage, but forgetting the real bird?

Mr. MONRONEY. I think we must look at the whole pattern. It is not the large oil companies, as a rule, which find the wells. It is usually the small operator who finds a well. He may produce for a little while, and then sell it and pay a capital gains tax on the sale. That is the way the big oil companies come into possession of much of their production.

One reason why I think it would be dangerous to change the historic depletion allowance in the midst of a national emergency, is that a large percentage of the financing of the wells is done with money borrowed from the banks. One of the reasons why there has been ade-

quate financing for oil wells is the 27½ percent depletion allowance. If it were not for that, very few banks would be interested in making loans to finance exploration for oil.

Mr. HUMPHREY. I am not now saying that there should not be some depletion allowance. I am simply saying that the favored rate of 27½ percent for gas and oil is far beyond the allowance in many other areas which are equally important. It far beyond the depletion allowance for the average mine. Gravel, oyster shells, and a few other things are included in the bill. Once we start with the depletion allowance for such things, anyone who can come forward and show that his asset can outlive its usefulness by production will be entitled to a depletion allowance. There will be no end to it, and no limit to the point to which we may go.

Mr. MONRONEY. I believe that oil and gas are in a little different status from that of the ordinary mining operation. In the case of a mining operation the operator can usually tell where the field is. The oil and gas business involves a highly speculative risk. A great deal of the production in Oklahoma is from what we call "pimple" fields—mere spots of oil from 5,000 to 10,000 feet under the ground. If the geological calculations are off by a few hundred yards, the result is a dry well, and the operator has missed the little saucer-pool which he is seeking. In mining operations the operator usually has knowledge as to where the ore-producing strata lie; but we certainly do not have such knowledge, to any solid degree, in the oil industry.

Mr. HUMPHREY. The Senator is acquainted with oil development, because he comes from an area where there are fabulous quantities of oil—

Mr. MONRONEY. We did have fabulous quantities of oil. Today it involves a hard search, and a very speculative search.

Mr. HUMPHREY. The Senator also knows that geological surveys have been made which provide information beyond what was available in 1925. He also knows that there are many State laws regulating the output of oil. He also knows that oil stocks in the market are among the very best. As an industry the oil industry is one of the most profitable.

What the Senator tells me with respect to the little fellow impresses me. I am referring to the small operator who is just barely eking out a living. I think it might be a good idea for the Government to do for him what we did the other day in connection with air-mail subsidies and postal subsidies. Let us get the subsidy out into the open. We should say to the small operator, "We need your oil. We need 10,000 more just like you. We will pay you a subsidy of 5 cents or 10 cents a barrel on whatever you produce." It is much better to do that for some fellow who needs it than to permit someone who does not need it, and who has been able to make a fabulous fortune, to reap a great benefit at public expense. Although he has made a great fortune, at the same time he has

had a 27½ percent depletion allowance year in and year out.

I believe in helping the folks who do not get a fair break. I say that if the Government can give a 27½ percent depletion allowance to some of those who are getting a tremendous break, we could easily do something for the little fellow. Let us get the situation leveled off. Some of the big producers could get by with a 15 percent allowance, as recommended by the Secretary of the Treasury, rather than 27½ percent.

This allowance represents a tax subsidy. Let us get the subsidy out in the open where we can see it, and appropriate a certain amount of money to get oil production under way. The Government will be better off, and the taxpayers will be better off.

Mr. DOUGLAS. Mr. President, will the Senator yield?

Mr. HUMPHREY. I yield.

Mr. DOUGLAS. A very eloquent argument has been made in favor of an allowance for percentage depletion in gross receipts. In view of the fact that radishes, celery, and lettuce are highly important in a balanced diet, might it not be necessary to permit a percentage depletion allowance in gross receipts of those who raise such vegetables, in order to protect them against the hazards of a bad season, when the seeds might not come up?

Mr. MONRONEY. Mr. President, will the Senator yield?

Mr. HUMPHREY. I yield.

Mr. MONRONEY. Of course, the answer to what the distinguished senior Senator from Illinois has just said is that the farmer raising vegetables can produce a crop next year, and the year after next year; and for 20 years more he can produce more and more heads of lettuce. But every barrel of oil which is produced is one barrel of oil less in the ground. No more oil will arrive under that pool, which was put there perhaps a million years ago. When that one barrel of oil is produced, it is gone forever. That is the reason for the depletion allowance.

Mr. HUMPHREY. Perhaps we should do a little Yankee horse trading, and leave the depletion allowance where it is, but get the tidelands clearly under the national domain. I think that would provide the Treasury with the money it needs. That would be an equitable trade. But if we cannot trade, we shall be compelled to fight for a 15-percent depletion allowance.

Mr. MONRONEY. The Senator stated that oil companies were in the highest income group. He was talking about the large integrated companies, most of whose profits do not come under the 27½-percent depletion allowance. They get their profits from the byproducts of oil, which have been developed in various industrial chemicals. To cite their sales on the stock market is not a justifiable reason for trying to reduce the depletion allowance.

Mr. HUMPHREY. I thank the Senator for his comment. The Secretary of the Treasury—not only the present one but I believe every Secretary of the Treasury for the past 25 years—has been

appealing to Congress to do something about oil depletion. The President has made his appeal. I cannot believe that the Treasury is unaware of the economic facts. The RECORD is replete with testimony year after year before the House and Senate committees. The arguments have not been answered, but a bill has always been written. That seems to be the important thing to do.

Mr. MONRONEY. If the facts were incontrovertible and if they were absolutely conclusive in all the years that the Treasury has recommended that something be done about it, both Houses of Congress would not have felt that the 27½ percent depletion allowance was advantageous not only to the oil industry but to Uncle Sam.

Mr. HUMPHREY. What the Senate and House may do does not necessarily bear upon whether an argument is irrevocably sound. We make policy decisions. We make decisions which sometimes have no relation to economic fact. We have had a policy since 1921 with respect to postal rates. We have not raised second class postal rates since 1921. If that makes any sense, I should like to have it pointed out to me.

Finally we got around to taking some action about it. It was done with the help of the Senator from Louisiana [Mr. LONG], the Senator from Illinois [Mr. DOUGLAS], and other Senators. It went through by an overwhelming vote. The two Senators I have mentioned led the fight. I chirped in once in a while, trying to support it. The rates were raised 20 percent. The same old argument was heard repeatedly in committee: "If you do this it will put the magazines out of business."

I venture to say that the magazines will still be doing business and that the newspapers will still be doing business. However, Congress had a policy. The policy had no relation whatever to the facts involved. However, it was the policy. In the same way we may continue the 27½ percent oil depletion rate. As a matter of fact, it looks as though we may do so, though in so doing I do not believe there is very much relationship to the facts that have been presented, at least by the Bureau of Internal Revenue and the Secretary of the Treasury. It looks as though we will make the decision because—well, because the votes are here to do it. That is about the reason for it.

Mr. FLANDERS. Mr. President, will the Senator yield, so that I may send an amendment to the desk, without argument or observation at this time?

Mr. HUMPHREY. I shall yield for that purpose, provided I do not lose the floor.

Mr. FLANDERS. Mr. President, on behalf of myself and the Senator from New York [Mr. LEHMAN], the Senator from New Jersey [Mr. HENDRICKSON], the Senator from Massachusetts [Mr. SALTONSTALL], and the senior Senator from New York [Mr. IVES], I send an amendment to the desk and ask that it be stated, thus making it the pending amendment.

The PRESIDING OFFICER. Does the Senator from Minnesota yield for that purpose?

Mr. HUMPHREY. I do not yield to have the amendment considered at this time.

The PRESIDING OFFICER. No; for the purpose of stating the amendment.

Mr. HUMPHREY. Yes.

The PRESIDING OFFICER. The clerk will state the amendment.

The LEGISLATIVE CLERK. On page 142, beginning with line 11, it is proposed to strike out all of section 313 down to and including line 6, on page 145.

On page 145, beginning with line 7, it is proposed to strike out the numerals "314" and insert the numerals "313" and renumber all following sections accordingly.

Mr. HUNT. Mr. President, will the Senator yield?

Mr. HUMPHREY. Yes.

Mr. HUNT. Mr. President, I have been very much interested in the colloquy, and wish to congratulate the Senator from Minnesota on the fine way he is presenting his arguments. I should like to suggest to the Senator from Minnesota that in the oil-producing States, where we are frantically wildcatting at the present time, and have been for a period of years, we hit about one out of nine holes. I have in mind one particular well which was completed 2 years ago, slightly deeper than 21,000 feet, in which an oil company, the Superior Oil Co.—not one of the large companies, but one of the fairly large companies—put \$1,500,000 into a dry hole.

Many other wells in my State cost as much as \$100,000 to drill. Generally one out of nine wells comes through, regardless of the refinement in our methods of searching for oil domes.

The comment I should like to make to the Senator from Minnesota is this: Does he not feel that the depletion allowance is absolutely necessary in order to form a basis of incentive for any company, be it large or small, to take a chance on putting into an oil-drilling operation \$1,500,000 and getting nothing out of it?

Another point I should like to emphasize is the one which was partially developed by the Senator from Oklahoma [Mr. MONRONEY]. By and large in my State, wells are initiated in this manner: The owner of the land will contact a driller. The driller will enter into an agreement to put down the hole on a 50-50 basis. Sometimes it is on a 75-to-25 basis. Generally a driller, for his equipment and for his know-how, makes a contract with the landowner, and if they are successful in getting oil they share equally in the results produced by the well.

I make that point because I believe we have concentrated too much in our discussion on the big oil companies, which, by and large, do not drill wells at all. They step in, knowing the potentials in the oil business, after some other smaller company or an individual, perhaps, has put up the money and drilled the hole and started production. Then along comes the big company and makes the purchase.

Without this depletion allowance, I certainly have great apprehension that

the oil production of the United States, especially now since the Iranian situation has developed, would be seriously curtailed. I say that particularly because the Iranian situation may have the effect of keeping oil from England and other allies and may make it necessary for us to supply the oil.

I am very fearful that any depletion allowance percentage which we may write into this bill which would stifle the initiative would drastically cut our oil production. I thank the Senator for permitting me to make the observation.

Mr. HUMPHREY. I thank the Senator for his observation, because again that is the way the Senate gets its information. When we read the RECORD tomorrow we will have a better opportunity of determining how we should vote on the amendments.

I have in my hand a copy of a report issued by the Treasury Department entitled "Additional Tax Incentives for Mining Industry."

The report is a compilation of what our Government is doing to give incentive for further exploration and development of our mining, oil, and gas facilities. I ask unanimous consent that the material may be embodied in the RECORD at the conclusion of my remarks on this subject.

There being no objection, the report was ordered to be printed in the RECORD, as follows:

ADDITIONAL TAX INCENTIVES FOR MINING INDUSTRY

I. PROPOSAL AND ITS BACKGROUND

In order to stimulate domestic production of minerals, it is suggested that the Federal income-tax law be amended to provide additional tax incentives for exploration and development. For this purpose, Senator O'MAHONEY has suggested that special provision be made for tax deductions of mining expenditures for prospecting, exploration, and development. One objective is to encourage small mines to undertake new ventures and expand their operations, thus fostering the growth of independent competitive enterprise as well as increasing mineral supplies.

Similar liberalization of the treatment of mine expenditures has been sponsored from time to time by various mining groups.¹ The House Committee on Ways and Means has included in its formulation of the 1951 revenue bill a provision generally similar in character to the suggestion of Senator O'MAHONEY. This provision would treat expenditures incurred in the development of mines, after discovery of commercial quantities of ore, as deferred expenses deductible ratably over the period of production. Senator O'MAHONEY's proposal would in general be more liberal than the Ways and Means Com-

¹ For example, the American Mining Congress has repeatedly urged adoption of the following recommendation of the National Minerals Advisory Council: "Development costs after discovery of the existence of an ore body should be recognized as operating expense or costs of mining; and the taxpayer should be allowed to deduct them from income as operating expense, either in the year in which the expenditure is made or in subsequent years as the ore is mined." Committee on Ways and Means, hearings, Revenue Revision of 1951, 82d Cong., 1st sess., p. 1577. Cf. *ibid.*, Revenue Revision of 1950, 81st Cong., 2d sess., p. 357; *ibid.*, Revenue Revisions, 1947-48, 80th Cong., 1st sess., p. 1859 f.

mittee provision, as regards both the timing and scope of the additional tax deductions.

Present tax law allows deductions for all of these types of costs either when incurred or as depletion prorated over the productive life of a mineral deposit. However, since percentage depletion is computed with respect to current income from the property and irrespective of actual costs incurred, the effect of both proposals would be to permit additional deductions to mineral taxpayers who deduct percentage depletion. While the Ways and Means Committee provision grants additional deductions only for development costs, Senator O'MAHONEY's plan would extend such treatment to prospecting and exploration costs as well. It also contemplates the possibility that tax benefits might be confined chiefly to new, small, or independent enterprises so as to minimize resulting revenue losses.

There is general agreement that in the present rearmament period, the Federal Government must take measures to assure adequacy of mineral supplies for vital needs. Objectives of mineral policy include not only expansion of current output of minerals of critical and strategic importance, but also the discovery and development of additional reserves for future production. The Government may seek to implement this policy in a number of ways. The following discussion describes the liberal benefits already granted to various sectors of the mining industry in the form of special tax treatment and various types of direct financial assistance, and discusses various related considerations which should be weighed in judging the need and desirability of the proposals as a further means of fostering mineral discovery and development.

II. PRESENT TAX TREATMENT OF MINERAL PRODUCERS

Existing tax laws accord the mining industry the benefit of general tax rules for full recovery of costs in determining taxable net income. In addition the mining industry is the beneficiary of a number of special provisions under both income and excess profits tax designed in part to foster and encourage exploration, development and production of minerals. As a result, the mining industry in general pays substantially lower effective rates of tax on its economic income as compared with other branches of industry.

A. Exploration and development expenditures

In mining, as in other types of business enterprises, taxable income is computed after allowance for costs of producing the income, in accordance with generally accepted accounting principles. Costs of prospecting and exploration are now deductible as current expense where these costs are not related to a specific mineral property. Where they are attributable to a particular mine or property, these outlays are capitalized and fully recoverable from income through subsequent deductions for cost depletion or as losses on abandonment.

Costs of developing a mine are now currently deductible to the extent that there are receipts from the sale of ore during the development stage. The excess of development costs over current receipts is charged to a capital asset account and may be recouped from later income through cost depletion. Thus on a successful mining property, the amounts of all exploration and development costs not deducted when incurred, may be recovered tax-free from the proceeds of production. If the mine proves unsuccessful and is abandoned, any of these costs yet unrecovered are deductible as losses.

B. Special depletion allowances

For producers of most commercially important minerals special alternative deductions are allowed through percentage de-

pletion, which may be taken whenever it is more advantageous to the taxpayer than cost depletion. Percentage depletion is computed as a specified percentage of gross income from a mineral property,² subject to the limitation that the deduction cannot exceed 50 percent of the net income from the property. This computation is made without regard to the capital costs of finding, acquiring and developing the property, and deductions so computed may continue to be taken as long as the property yields net income, even though the aggregate amount of percentage depletion deductions may exceed the actual investment many times over.

Historically percentage depletion was adopted as a substitute for discovery depletion which had first been granted by the Revenue Act of 1918 with the explicit objective of stimulating prospecting and exploration. The rates allowed for percentage depletion were designed to continue the substantial tax advantages accorded mineral taxpayers under the former provisions. At the present time one of the chief justifications offered for percentage depletion is its alleged incentive effects.

The Ways and Means Committee, in its tentative formulation of the 1951 revenue bill, voted to increase the rate on gross income for coal from 5 to 10 percent; to extend the 15-percent rate to borax, fullers earth, refractory and fire clay, quartzite, perlite, diatomaceous earth, metallurgical and chemical grade limestone, and tripoli, and to extend a 5-percent rate to sand, gravel, granite, marble, stone, brick and tile clay, shale, and shell.

At present, percentage-depletion deductions typically far exceed amounts required to amortize unrecovered costs. Treasury studies of most recent available data indicate that in 1948 and 1949 percentage-depletion deductions for metal-mining corporations were on the average seven to eight times the amount of cost-depletion deductions, and for nonmetallics producers, 40 times. These special deductions, in effect, provide a partial exemption of income. In practice, this exemption in recent years has been equivalent to 25 percent of net income for the average metal-mining enterprise and as much as 40 percent of net income for the average nonmetallic producer.

As general tax rates have been increased, particularly during World War II and in the present defense period, the tax advantage afforded mineral producers has been markedly increased. When discovery depletion was adopted, the tax benefit was equivalent to 12 cents for each dollar of net income excluded from tax through special deduction in excess of costs. When percentage depletion superseded discovery depletion for metal mines in 1932, the tax benefit was 13¾ cents per dollar of special deductions. Under present rates, the tax saving per dollar of excess depletion is 47 cents for those subject to combined corporation income-tax rates and 77 cents for those subject to excess-profits tax. Under rates adopted tentatively by the Committee on Ways and Means, the tax benefits will be equivalent to 52 cents for corporate income taxes and 82 cents per

dollar for income otherwise subject to excess-profits tax.

The cost to the Government in revenue foregone through special depletion deductions in excess of investment costs for all the mineral industries currently approximate three-quarters of a billion dollars annually.

C. Amortization of emergency facilities

As a means of encouraging projects needed in the national defense, the present tax law permits taxpayers to recover the cost of certified depreciable facilities over a shorter period than the useful life of property. A taxpayer whose facilities have been certified as essential has the option to amortize their cost over a period of 60 months. Current tax liability is thus reduced, and realization of taxable income during a period of high emergency taxes is postponed.

The advantages of this tax treatment have been availed of in connection with many mining projects for expansion and new developments. As of May 22, 1951, the Defense Minerals Administration had approved 134 certificates of necessity for mining ventures, covering emergency facilities with planned total costs of \$871,954,237.³

Regulations governing administrative agencies in granting certificates of necessity require that guidance to the maximum extent will be obtained from considerations which assure a fair opportunity for participation by small business and promote competitive enterprises.⁴ The Defense Minerals Administration has apparently given sympathetic consideration to the needs of small business in granting of certificates to mining enterprises.

D. Excess profits tax relief

The Excess Profits Tax Act of 1950 contains several special provisions designed to relieve mineral producers from excess profits tax liability. Under these provisions income from certain types of mining activities are exempt, in whole or in part, from the excess-profits tax.

1. Strategic Minerals Exemption

In order to encourage domestic production of strategic minerals the portion of net income of a domestic corporation attributable to mining of a specified list of strategics in the United States is entirely exempt from excess-profits tax.⁵ In addition to the 26 types of minerals specifically exempted, other minerals may also be entitled to the exemption if certified by defense agencies as essential to the defense effort and as not having been normally produced in the United States in appreciable quantities.

2. Excess-Output Provisions

A portion of the net income derived from expanded production of certain mining, timber, and natural-gas properties is exempt from excess-profits tax. Excess output is the excess of units of production in the current year over the normal output during the period 1946 to June 30, 1950. For most metals and nonmetallics, the proportion of income from excess output which is exempt is determined by the rate at which estimated re-

serves are being exhausted, ranging from 20 to 100 percent. In the case of coal and iron mines, timber, and natural-gas properties, the exemption is one-half of the net income from excess output.

3. Exemption for Mines or Properties Not Operating in the Normal Period and for Metal Mines Operating at a Net Loss in the Normal Period

An additional exemption is granted to provide a greater incentive for the opening up of new properties and of closed mines. In the case of new or reopened metal and coal mines and natural-gas properties, one-third of the total net income is exempt from excess-profits tax. The same tax relief is given to metal-mining properties in operation in the normal period but having an aggregate net loss for this period.

4. Exemption of Government Subsidy or Bonus Payments

Amounts paid to mineral taxpayers by any Federal agency for the encouragement of exploration, development, or the mining of critical and strategic minerals are wholly exempt from excess-profits tax as well as from regular income tax. This exemption is applicable whether the payment is in the form of a grant or loan and whether or not it is repayable.

5. Minimum Credit and Special Relief

In addition to those relief provisions of specific application to mineral producers, the excess-profits-tax law also contains a number of liberal provisions designed to prevent hardship to small, new, or growing businesses in industry generally. In a number of instances these will be of importance to mining firms. Besides the basic alternative earnings and invested-capital credits, liberal provision is made for adjustments of the average earnings credit for capital additions, including retained earnings during and subsequent to the base period. Comparable adjustments are made for capital additions for firms using the invested-capital method.

A minimum excess profits credit of \$25,000 is provided to relieve small corporations from excess profits tax.⁶

New corporations are granted an alternative base period credit computed by applying the average base period rate of return for the taxpayer's industry classification to the amount of his total assets. Special relief permitting the use of a constructive earnings credit, computed in part or in whole by multiplying the total assets of the firm by an industry rate of return, is also made available to firms which introduced new products in the base period or which made substantial increases in capacity during the base period.

The impact of the excess profits tax on mineral industries is mitigated not only by these specific relief measures, but also by the special allowances for percentage depletion. As profits of mining firms increase, due either to increased output or higher prices, percentage depletion increases commensurately and independently of the actual costs of the depleted assets. Since these allowances are deducted from net income, they reduce not only the amount otherwise subject to the ordinary income tax but also the portion of net income which is subject to the excess profits tax.

Special depletion allowances are of particular advantage in combination with the invested capital credit for excess profits tax. Unlike the base-period earnings which also

⁶ Also under the regular income tax, \$25,000 of net income is not subject to the 22-percent surtax rate. Thus, income of small corporations is taxed only at the 25 percent normal tax rate instead of the combined income tax rate of 47 percent which applies to larger amounts of income of other corporations.

² The following percentages of gross income are allowed different minerals under present law:

	Percent
Oil and gas.....	27½
Sulfur.....	23
Metals.....	15
Coal.....	5
Nonmetallics: Bauxite, fluorspar, flake graphite, vermiculite, beryl, feldspar mica, talc (including phrophyllite), lepidolite, spodumene, barite, ball sagger, and china clay, phosphate rock, rock asphalt, trona, bentonite, gilsonite, thenardite, and potash....	15

³ Data from Chief Economist's Office, Defense Minerals Administration.

⁴ National Security Resources Board, Title 32-A, National Defense Appendix, pt. 600, October 12, 1950.

⁵ Strategic minerals specifically included by the Revenue Act are: Antimony, chromite, manganese, nickel, platinum (including the platinum group metals), quicksilver, sheet mica, tantalum, tin, tungsten, vanadium, fluorspar, flake graphite, vermiculite, perlite, long-fiber asbestos in the form of amosite, chrysotile or crocidolite, beryl, cobalt, columbite, corundum, diamonds, kyanite (if equivalent in grade to Indian kyanite), molybdenum, monazite, quartz crystals, and uranium.

reflect special depletion deductions comparable to those taken in the current year, the invested capital credit is computed at standard rates of return which do not take account of special tax treatment.

The combination of tax provisions for mineral industries, described above, follow the World War II pattern. Under the World War II provisions, the excess profits tax was relatively less for this group of taxpayers than for any other major industrial group, excluding financial corporations.⁷ In 1944, for example, of the total net income of mining and quarrying corporations, even after deducting depletion allowances, only 18 percent was subject to excess profits tax.

In contrast, the percent of net income subject to excess-profits tax was 55 percent for the manufacturing group, 48 percent for trade, and 44 percent for public utilities. The effective rate of total income and excess profits taxes, for all corporations with net income, was 61 percent for manufacturing, 75 percent for trade, and 56 percent for public utilities, as compared to 42 percent for the mining and quarrying group.

The undertaxation of the oil and mining industries resulting from existing tax concessions has been of serious concern to the President and to the Treasury. In his special tax message to the Congress on February 2, 1951, the President again called attention, as in his previous message of January 23, 1950, to the highly favorable tax treatment now enjoyed by these industries. He urged that the Congress examine the existing provisions very carefully with a view to reducing inequities.

The Secretary of the Treasury, in his statement to the Committee on Way and Means, February 5, 1951, pointed out that one of the major structural defects in the present tax law is percentage depletion available to oil and mineral producers, which is costing the Government and therefore taxpayers in general hundreds of millions of dollars each year. The Secretary urged that earnest consideration be given to the previous Treasury suggestion that rates of percentage depletion be reduced to 15 percent of gross income for oil, gas, and sulfur, and to 5 percent for nonmetallics producers. In addition, the proposal would require oil and gas operators electing to expense their intangible drilling and development expenditures to make corresponding adjustments in the basis for computing their percentage depletion.

III. DIRECT GOVERNMENT ASSISTANCE FOR MINERAL EXPLORATION AND DEVELOPMENT

In addition to favorable tax treatment, the mining industry receives extensive direct financial assistance from the Government in connection with exploration and development activities.

A. Mineral exploration program

The Defense Minerals Administration is authorized to provide direct financial assistance to prospectors and mine operators to facilitate search for new ores. An allotment of \$10,000,000 has been made available by the Defense Production Administration to finance this activity during the remainder of the current fiscal year, and appropriations of \$40,000,000 have been requested for fiscal 1952. The costs of exploration projects for discovery of certain strategic and critical minerals are met in part by Government funds on a matching principle. The percentage of total direct costs to be supplied by the Government on an approved project range from 50 percent to 90 percent, de-

pending upon the mineral sought.⁸ The prospector's share of the expenses may be in the form of his labor at reasonable rates, rental of equipment owned by him, and similar contributions in kind as well as cash.

If as a result of the exploration a profitable operation is established, the Government's contribution, without interest, is repayable from the net returns from ore or metal produced. The Government thus bears a major share of losses on unsuccessful ventures, and recoups only its share of costs on successful projects.

B. Mine-development program

The Government also provides important direct financial support through guaranteed price contracts to foster the opening of new mines and the reactivation of closed or formerly abandoned workings. These ventures differ from exploration in that a mineral body is known to exist and shows promise of profitable operation under favorable circumstances. Commonly these projects require substantial capital investment for further development of the deposit and for plant and equipment. But because of the quality of ore or its location, costs per unit of mineral product are relatively high, and recoupment of the investment will involve a comparatively long pay-out period at relatively high product prices.

In these cases, the Government assists the mining firms by granting favorable procurement contracts which guarantee a satisfactory price for the mine output for a number of years. These contracts, which are made on a project-by-project basis, typically also contain so-called "ball-out" provisions, under which the Government insures the operator and investors against financial loss in the event the contract is terminated before the end of the pay-out period. Thus by assuring favorable operating conditions and guarantees against loss, the Government now offers important direct encouragement to undertake new or expansion projects. The amount of Government funds to be allocated to this program is estimated by the Defense Minerals Administration at approximately \$3,000,000,000 for the fiscal years 1951 and 1952.

IV. EXEMPTION OF MINERAL PRODUCTS FROM RENEGOTIATION OF CONTRACTS

The Renegotiation Act of 1951, designed to eliminate excessive profits from Government contracts, specifically exempts mineral products.⁹ The exemption covers all contracts or subcontracts for the products of mine, oil and gas well, or other mineral or natural deposit.

V. OTHER CONSIDERATIONS FOR AND AGAINST THE PROPOSAL

Previous sections have reviewed the favorable treatment received by mineral industries

⁸ The scale is as follows:

Minerals:	Government contribution in percent of total costs
Chromium, copper, fluorspar, graphite (crucible flake), iron ore, lead, molybdenum, sulfur, zinc, and cadmium	50
Antimony, manganese, mercury, and tungsten	75
Asbestos (spinning grade), beryl, cobalt, columbian-tantalum, corundum, cryolite, industrial diamonds, kyanite, mica, monazite and rare earth ores, nickel, platinum group metals, quartz crystals (piezo-electric), talc (steatite), and tin	90

⁹ Public Law 9, ch. 15, sec. 106 (a) (3), 82d Cong., 1st sess.

under the Federal tax provisions and other direct and indirect assistance programs.

Despite these measures, many minerals are still in relatively short supply in the rearmament period, as they inevitably are when the characteristically heavy pressures of military production of minerals are superimposed on existing levels of civilian demands. The extent to which the current shortages relative to demand can be overcome by further tax concessions appears to be severely limited even though large amounts of tax revenues might be sacrificed for this purpose.

Production of mineral supplies to meet all current demands, if physically possible, would have to be in large part at the expense of production of other essential materials and commodities which are also in relatively scarce supply. In an economy which is currently utilizing virtually all productive resources, any new exploration or development project must obtain supplies of labor, equipment, and materials by hiring them away from competing uses. For a number of minerals urgently needed, such as tin, tungsten, platinum, the physical possibilities of increasing United States production to meet demands appear to be slight. For these reasons additional grants of broad tax concessions may prove to be ineffective in overcoming scarcities.

Additional tax concessions have also been advanced as a means of aiding small mines, and concern has been expressed about the number of these mines which have ceased operations in recent years. The reasons for the cessation of a number of small mining operations and reduced small-scale prospecting are complex, but the major reasons do not appear to relate to tax factors. During the 1940's the chief causes of suspended or curtailed operations appear to have been the rising costs of labor and supplies, which made many operations unprofitable at prevailing levels of product prices.¹⁰

Another factor affecting the feasibility of small mine operation has been the necessity to resort to comparatively low-grade ores for additional mineral supplies. Profitable exploitation of these deposits commonly requires large capital investments for concentrating and beneficiation plants as well as for mining equipment, with the result that only relatively large-scale operators can successfully undertake these ventures.

Special tax deductions, which result in revenue losses and impair the equity of the tax system, have only a secondary or incidental incentive effect on economic activity. These deductions are advantageous only where there are expectations that net income can be derived. They are of greatest advantage to the most profitable firms, particularly those subject to excess-profits tax. Mines which are submarginal at expected price levels because of the quality of ore, distance from markets, or inadequate scale

¹⁰ See Strategic and Critical Minerals and Metals, hearings before the House Subcommittee on Mines and Mining of the Committee on Public Lands (80th Cong., 2d sess., pp. 713ff.). Mr. ENGLE, of this subcommittee, pointed out that right in the middle of the war our copper production went down and continued to decline until in 1945 it was approximately 30 percent of the 1943 rate. The figures show that we had an all-time high of 33,500 men working in the copper industry during December 1942, and by September and October 1943 the mine labor force had declined to 18,800 men notwithstanding the fact that the Government closed the gold mines during this period on the assumption that miners forced to leave the gold mines would go right over into the copper mines" (ibid., p. 727).

⁷ See Senate, Excess Profits Tax on Corporations, 1950, hearings before Committee on Finance, 81st Cong., 2d sess., p. 96.

of operations, cannot be made profitable by special tax treatment of nonexistent income.

To the extent such proposals would accelerate the timing of deductions allowed under existing tax laws, the tax benefit depends upon the taxpayer having current net income sufficient to absorb the deduction of exploration and development expense as incurred. In consequence, current deductions for these costs could not be expected to be of much advantage to new or small operators who must make considerable investments before net income can be obtained from a project. On the other hand, additional current deductions may be expected to be of greatest benefit to financially entrenched taxpayers who may thereby offset current tax liability on other sources of income.

The proposal would separate the exploration and development expenditures for special deduction without at the same time adjusting the percentage depletion allowances based on income. This will produce corresponding increases in the combined total of capital recovery allowances,¹¹ and a larger part of percentage depletion allowances will represent duplicating deductions for costs previously recovered.

The great bulk of depletion allowances now go to large, vertically integrated firms. Latest available Statistics of Income data reveal that in 1948 60 percent of mineral depletion deductions were taken by firms whose principal business activity was manufacturing (including petroleum refining). Firms whose activities were predominantly mineral extraction had only about one-third of total depletion deductions. Classification of firms by size of total assets indicates that in 1948 two-thirds of all corporate depletion was deducted by the largest firms, those with assets of over \$100,000,000. Firms with assets of \$1,000,000 or more had 94 percent of total depletion. Small firms with assets of \$250,000 or less had only 1.5 percent of the total.

It appears that the major tax benefits of proposed additional deductions for exploration expense would also go to the large, well established firms. These taxpayers have sufficient net income from diversified sources to derive full tax benefit from the special deductions. On the other hand, these large, established firms typically conduct exploration and development activities for additional reserves in order to maintain their position in the industry and to realize the value of their large investments in processing, manufacturing and marketing facilities. Generally, they have or can obtain funds for these activities.

It would be extremely difficult to formulate tax concessions which would offer any significant inducement to new, small or reopened mines, but which would not result in large and unnecessary tax benefits to favorably situated firms for whom the concession appears unnecessary. Such provisions are open to serious objections on grounds of discrimination, economic and competitive distortion, and administrative difficulties. Even if initially adopted on a limited scale, they would tend to be broadened with increasingly serious loss of revenue.

One of the reasons sometimes advanced for expensing treatment for mine exploration and development costs is that similar treatment has been enjoyed by the oil and gas industry with respect to intangible drilling and development costs. This treatment was introduced by administrative regulation in 1917 when the expensing privilege was a clear alternative to cost depletion. Con-

tinuation of the privilege after the adoption of discovery and percentage depletion has resulted in double deductions. This privilege has resulted in serious abuse and large-scale tax avoidance. Particularly in times of high tax rates, taxpayers with large incomes from fields unrelated to mining have been able to reduce current tax liabilities through use of this tax device. A proper remedy in this area would appear to be curtailment of the special privilege allowed for oil and gas expenditures rather than an extension which would offer wider latitude for tax abuse during the present emergency period.

VI. CONCLUSION

The types of additional tax deductions proposed may be expected to have some incentive effects in the case of financially established taxpayers, especially those subject to excess-profits tax. On the other hand, the proposals would tend to be ineffectual in the case of new, small, or reopened mines without existing sources of income, requiring substantial risky investment before income prospects may be realized.

The proposals would create several undesirable side effects, including impairment of the equity of the tax system, widened opportunity for tax avoidance, competitive discriminations between classes of taxpayers, and further losses of revenue. While continuing study needs to be given to the possible revision of capital-recovery allowances for mineral producers, this should be done with a view to achieving a more equitable measure of income and desirable economic effects. This calls for an integrated approach which would make appropriate adjustments in the existing percentage-depletion system, so as to avoid duplicating tax deductions.

Mr. HUMPHREY. Mr. President, the Secretary of the Treasury, during the hearings on the Revenue Act of 1950, outlined the adjustments which can be made as a first step toward eliminating the loophole. His proposal was to reduce percentage depletion for oil, gas, and sulfur to 15 percent of gross income and for nonmetallic minerals to 5 percent. He also proposed that oil and gas operators who elect to expense intangible drilling and development costs be required to reduce income from the property by the amount of such expensed costs in computing their depletion allowance. These changes would increase revenues by \$350,000,000.

It is our intention, in conjunction and in cooperation with other Senators, to offer an amendment to the bill with respect to the depletion-allowance provisions.

B. INCOME SPLITTING

I now walk into an area of the tax bill where angels fear to tread. Only a neophyte on taxes would dare to do so. I want my remarks to be clearly understood. I bring the matter to the attention of the Senate, with the possibility that a further study of the income-splitting feature will be made by the Committee on Finance or the Joint Committee on Internal Revenue, with the possibility of a substitution or elimination of the benefits of income splitting for an increase in the tax rate which is incorporated in the bill. There are three amendment possibilities. As yet I have not made up my mind which one of the three I shall urge. However, I shall talk about income splitting because when I started to dig into that subject—and I spent some time examining it—I was

amazed to find that the benefits of it were primarily theoretical, but not, in fact, for the bulk, the vast majority, of the people of the United States.

Mr. President, the income-splitting provision was adopted in 1948, and was intended to equalize the tax burden of married persons throughout the Nation. However, the income-splitting provision gave very substantial tax reductions to wealthy taxpayers.

Nevertheless, I am aware of the fact that the intention was to equalize the tax burden on married persons throughout the Nation, inasmuch as in the years before the 1948 act, States which had community-property laws made it possible for married couples living in those States to split their income between the husband and the wife, with the result that a smaller tax was paid; but that was not possible in States which did not have community-property laws. Therefore, married couples in non-community-property-law States had been paying more income taxes than had married couples in the community-property States.

The obvious answer to that problem, of course, was either to eliminate the action the community-property States had taken in that field, if that could be done, or else to give to the other States the same benefits as those which were accruing to taxpayers in the community-property States.

The background of this matter is that in 1941, I believe, the House of Representatives dealt with this problem, to the extent of reporting a bill which would eliminate the income-splitting benefits.

Mr. MILLIKIN. Mr. President, will the Senator yield?

The PRESIDING OFFICER (Mr. CLEMENTS in the chair). Does the Senator from Minnesota yield to the Senator from Colorado?

Mr. HUMPHREY. I yield.

Mr. MILLIKIN. That measure came before the Senate at that time.

Mr. HUMPHREY. I thank the Senator. I had heard that it came before the Senate. So it is not a new subject; it has been a subject of discussion and controversy over the years.

Mr. MILLIKIN. Mr. President, will the Senator yield to me again?

Mr. HUMPHREY. I yield.

Mr. MILLIKIN. The next point is that the Senate in those cases practically filibustered the attempt to enact the split-income provision which the Senator from Minnesota has criticized.

Mr. HUMPHREY. I understand that. Let me say to the Senator from Colorado, who is deeply concerned with the need for raising increased amounts of revenue, that one of the reasons why I am referring to the split-income provision is that I believe the time may come, and it may be here now, when in order to obtain the revenue we need, we shall have to eliminate the benefits accruing under the so-called income splitting device. The Treasury estimates that in that way there can be produced \$2,500,000,000 of increased revenue.

Under my proposal, incomes could be split; but if that were done, the benefit

¹¹ Special exceptions would occur where percentage depletion was determined by the 50 percent of net income limitation. In these circumstances, additional deductions would lower net income and the limitation, and excess depletion would not be increased by the full amount of the additional deduction.

of the selected tax schedule which gives the tax relief under the split-income provisions could not be obtained.

Mr. MILLIKIN. Mr. President, will the Senator yield?

Mr. HUMPHREY. I yield.

Mr. MILLIKIN. I merely wish to say that I struggled with this problem on three different occasions. Two tax bills which passed the Congress in 1947 did not contain a provision for income splitting. In connection with each bill there was an enormous clamor in the Senate for the inclusion of a split-income provision. The Senate passed those two bills without including a split-income provision. However, the President vetoed both bills and there were not sufficient votes to override the vetoes.

So in 1948 the Senate voted in favor of a split-income provision, and the vote for that measure was 77 to 10.

Mr. HUMPHREY. Yes.

Mr. MILLIKIN. I do not wish to be overly discouraging to the Senator from Minnesota, but I wish him to understand the history of the split-income provision and the fate that is ahead of him.

Mr. HUMPHREY. Ah! I have already foreseen the fate, but I could not think of any more interesting or fruitful topic to discuss.

Mr. MILLIKIN. I hate to see the Senator from Minnesota tend barren vineyards.

Mr. HUMPHREY. Let me say that barren though the vineyard may be at this time, I still have the hope that in a year or two years from now the country will realize the need, in terms of raising increased amounts of revenue. I shall show that if we were to raise increased amounts of revenue at this time by means of doing away with the benefits of the split-income provision, we would be much fairer to many of the people of the United States.

Mr. MILLIKIN. I would hate to hang my hopes for the future on the passage of a measure to abolish the split-income provisions.

Let me say that the benefits of this system were not overlooked. It was understood what the benefits were and what the distribution of those benefits would be.

In order to fashion the bill which passed the Senate by a vote of 77 to 10—and I may say that some of the most vigorous leadership for enactment of a split-income provision came from the Senator's side of the aisle, the distinguished Senator from Arkansas [Mr. McCLELLAN] was a great leader on that subject for several years—we reduced income taxes in the lower brackets 30 percent, and scaled that reduction down to a 5-percent reduction in the highest income brackets; and we increased the exemption from \$500 to \$600, which benefited by several billion dollars those in the lower income-tax brackets. That represented a practical balancing of the advantage of split income. That was a part of the balance in that bill which attracted the vote to which I have referred.

Mr. HUMPHREY. I think the Senator from Colorado is giving us the reason why that vote was attracted.

Mr. MILLIKIN. It was deliberately contrived in order to attract the votes, because we wanted to reduce taxes; and we did, and we provided the great bulk of the benefit would go to those in the lower brackets; and as a partial offset to the benefits which those with incomes of from \$10,000 up obtained by means of the split-income provision, we reduced by 30 percent the tax in the lower brackets, and we scaled down that reduction to a 5-percent reduction for those in the highest bracket, and we gave to the lowest income tax brackets the great advantage of increasing the exemption from \$500 to \$600, which at that time amounted to more than \$2,000,000,000.

By the way, it would be interesting—although I would not support it—if the Senator from Minnesota were to submit an amendment to reduce the exemption to \$500, again.

Mr. HUMPHREY. Oh, no.

Mr. MILLIKIN. "Oh, no! Of course not." [Laughter.]

Mr. HUMPHREY. Let me say that not only would that be interesting—

Mr. MILLIKIN. It would be suicidal.

Mr. HUMPHREY. It would be somewhat catastrophic.

Mr. MILLIKIN. It would be suicidal to do it, sir.

Mr. President, I merely wish to point out, if there is any point at all in what I am saying, that what I suspect the Senator from Minnesota is coming into was balanced by other considerations of the type I have mentioned.

Mr. HUMPHREY. That is correct.

Mr. MILLIKIN. The end result was that the Senate passed the bill by a vote of 77 to 10, with overwhelming support from both sides of the aisle because of the fairness and justice of the balance which had been achieved in that bill.

Mr. HUMPHREY. After having obtained this factual material for the RECORD—

Mr. KNOWLAND. Mr. President, will the Senator yield for a question?

The PRESIDING OFFICER (Mr. PASTORE in the chair). Does the Senator from Minnesota yield to the Senator from California?

Mr. HUMPHREY. I yield.

Mr. KNOWLAND. It has been a little difficult for those of us on this side of the aisle to follow all the colloquy between the Senator from Colorado and the Senator from Minnesota, but when they were discussing the matter of the community-property States and the division of income between husband and wife, I did not want to let the moment pass, inasmuch as I represent, in part, one of the community-property States, without making very clear the point that in the community-property States the community ownership of property, as between husband and wife, was not set up for the purpose of a taxing measure, but it came from the old Mexican law, by which, as a matter of fact, the wife—not in expectancy, but in fact—is a holder, as a partner of the husband, of the community interest in the property, and she has complete ownership over the same, and has power to bequeath the community interest.

So the situation is entirely different, and has historically been so, in the com-

munity-property States, and has no relationship to the income-tax laws, as such. It was not conceived for the purpose of income-tax evasion, and there is an actual ownership of property by the wife.

Mr. HUMPHREY. I thank the Senator. That is as I understand it, and I appreciate getting that information at this point in the RECORD. I had made some study of that and knew that that was the express purpose of the community-property law, which had this old background from Mexico.

Now, Mr. President, I desire to continue regarding income splitting. At the time I was a municipal official, when my State was denied the benefit of income splitting and other States had the benefit of it, I insisted that my State be given equal benefit, and, of course, I contended that if one part of the country could have the advantage of income splitting, the other parts ought to have it. My proposal is not to condemn income splitting as such. My proposal is not merely to throw it out because its name is "income splitting"; not at all. I am going to say, however, that by eliminating some of the benefits of the present income-splitting law, we could substitute that for the proposed 11-percent-tax increase, and have more revenue, and have it fall more equitably upon the American people. Let me develop the point. I shall do that first, and then yield to any Senator who wishes to interrogate me.

A married man with two children, receiving wages of \$4,000, gains absolutely nothing from the present income-splitting provision; if he receives \$5,000, he gains all of \$2. Now, how many people in this country knew that? Under the present income-splitting law, if the married man receives \$10,000, he gets a benefit of \$168 as compared to a single person. However, a married taxpayer receiving a salary of \$500,000 gains \$25,000 from income splitting. To put it another way, 97 percent of the tax relief from this provision goes to people with incomes in excess of \$5,000 a year. No wonder President Truman so successfully stumped the country in 1948 when he took for his theme what he called the "rich man's relief tax bill." I predict that he will go to the country with equal success in 1952, with this tax bill as his text, unless it is amended before final passage.

This discriminatory provision was adopted because residents of community-property States were enjoying the privilege of splitting their incomes by virtue of local property laws. The tax advantages of these laws were so great that a number of States adopted them to obtain the benefits for their citizens. The solution devised by the Eightieth Congress was to universalize income splitting for the residents of non-community-property States. More equitable solutions were considered for many years by the Congress, but they were never adopted because of the determined opposition of Representatives and Senators from community-property States. It is noteworthy that all of the States that had adopted community-property laws to get their tax advantages repealed them

soon after the Revenue Act of 1948 was enacted. Those were the ones who, through their State legislatures, passed laws, and did not adopt constitutional provisions.

Aside from the fact that income-splitting benefits only high-income people, it can be criticized on the ground that it discriminates against all single people. The bill before you will actually raise the taxes of some single people in the upper brackets above World War II levels, but married couples in these brackets will pay substantially lower taxes because of the advantage of income splitting. That is, in the upper levels. H. R. 4473 not only does not remove this inequality but actually increases the tax differential between single persons and married persons.

The House was well aware of these inequalities. In order to relieve hardship for widows and widowers who are denied income splitting after the death of the husbands or wives, and who are not in the process of income splitting, it extended half of the advantage of income splitting to single persons who are heads of households. "Heads of households" are defined in the bill as single persons who maintain in their household children or their descendants whether or not they can support themselves or who maintain any relative for whom they claim an exemption under present law. The Finance Committee adopted the principle of head of household, but gave them only one-quarter rather than one-half the benefit of income splitting.

Extending a small part of the benefits of income splitting to heads of households does not cure the disease. It merely adds another group of favored taxpayers precisely at a time when the burdens of all other taxpayers are being increased in the interest of the defense effort.

I might say, however, that when this income-splitting device is maintained in the law there is quite a compelling argument to extend it, when a married couple take on the responsibilities they do in a home.

It is my conviction that the differential in tax liabilities between married persons and single persons should be reduced not by extending the regressive feature of income splitting to a new category of taxpayers but on the contrary by eliminating this privilege for all of the high-bracket taxpayers. My point is that we are not now trying to doctor something up either to eliminate the benefits or obviously be compelled to take in more and more people under the benefits.

The splitting of income in community and non-community-property States now costs about \$2,500,000,000, according to the Treasury Department. All of this revenue could be raised by adjusting the rates for married couples. If the Senate would adopt this suggestion, it could eliminate all of the individual income tax rate increases from the bill and still raise some \$200,000,000 more than the bill as it is now written.

Let me be specific. By a revision of the schedule on incomes for married couples, we would be able to raise \$2,-

500,000,000 by eliminating the benefits of income splitting, while by increasing the tax levy by 11 percent across the board, with an 8-percent ceiling on the upper income brackets, we would actually raise \$2,300,000,000, so we would raise \$200,000,000 more by eliminating the income-splitting provision. I should like to submit later for the RECORD a table which compares the House bill, the Finance Committee bill, and the suggestion to eliminate the benefits of income splitting.

I know that this is hard to explain. I have been told, "You cannot explain this; the people simply will not have time to understand what you are talking about." So let me put it simply. The average American citizen with an average income of \$10,000 a year or less—and that takes care of about 94 percent or more of all the taxpayers of the country—is better off by the elimination of the benefits of income splitting than he is by taking an 11 percent tax increase on top of his present tax. So, in other words, the Treasury would be receiving \$200,000,000 more money, which the Government desperately needs, and the man with \$10,000 a year income or less—and that bracket embraces the group which suffers the most under high-cost-of-living conditions and inflation—would have a better deal under the elimination of income-splitting benefits than he would by absorbing the 11 percent. I have carefully checked this and have had tables prepared. I insisted that the Treasury help me in the preparation of the tables—and I mean "insisted," too. After studying it, I say definitely that eliminating the benefits of the income split will raise more revenue than the 11 percent tax increase proposed by the Finance Committee bill. I keep on repeating that this great group in America, which takes it on the chin, will also have to pay the heavy excise taxes, which are continuously being increased as another source of revenue. This bill has \$1,300,000,000 more in excise taxes. Who is going to pay them? The sheetmetal worker, the milk-wagon driver, the fellow who is working on the railroad track, and the fellow who is a clerk in a drugstore or in a grocery store, because such people compose the great bulk of the citizens of America.

I have a proposal which I merely suggest for purposes of consideration, which works as follows:

Let us say a man has an income of \$5,000, and he is a married person with two dependents. Under the present law his tax would be \$420. The House bill would increase the tax by \$53. The Senate bill would increase it by \$46. The income-splitting privilege would increase the tax by \$2. Here is a man who has a salary of \$6,500. Under the present tax laws he pays a tax of \$690. The House bill would add \$86, and the Senate bill would add \$76. This is a man who thinks he is getting the benefits of income splitting. If the benefits were removed from the legislation, that man's tax would go up only \$29, as compared with \$76 in the Senate bill and \$86 in the House bill, and yet the sum total of all the money that would be collected after the elimi-

nation of the so-called benefits, the theoretical benefits of income splitting, would add up to two and one-half billions of dollars.

Mr. PASTORE. Mr. President, will the Senator yield?

Mr. HUMPHREY. I yield.

Mr. PASTORE. Does the Senator intend to propose that sort of an amendment?

Mr. HUMPHREY. I have it in mind, I will say to the Senator.

Let us take a man who receives \$8,500. His present tax is \$1,075. The House bill would increase his tax \$134, and the Senate bill would increase his tax \$118. The elimination of the income-splitting benefits would increase his tax \$90. In other words, he would be \$28 better off under the Senate bill, and \$44 better off under the House bill.

But thousands and thousands of persons have been told that income splitting is their salvation. It may have been at one time. When I was mayor of a sizable city, I went down the line for community-property privileges for my people, just as they existed in other places. I am not condemning it as such. What I am saying is that we have before us a bill to raise revenue, and I think we should raise it as equitably as possible. I pointed out that a great deal of revenue is not being raised on the principles of equity, at least as I see them. We need to raise more revenue. The way to raise \$2,300,000,000 is to tax everyone 11 percent on what they now pay. Under an amendment which I have in mind, a man receiving less than \$10,000 a year will actually pay increased taxes, but he will pay fewer dollars in increased taxes than he would under the 11-percent proposal. I repeat—because we cannot debate this bill without facing up to the economic situation which confronts our country—that the burden of the high cost of food, clothing, and education, the burden of keeping an automobile going, to drive to work at the factory, of being able to hold things together, day in and day out, to manage a household falls very heavily upon the lower-income group. That is the group which feels the impact of a nation which has gotten itself into the tortures of inflation; and I submit we are not doing very much to check the inflation.

Mr. DOUGLAS. Mr. President, will the Senator yield?

Mr. HUMPHREY. I yield.

Mr. DOUGLAS. Do I correctly understand the Senator from Minnesota that one possible phase of his criticism of income splitting would be to substitute the abolition of income splitting for the increase in the income tax proposed by the committee?

Mr. HUMPHREY. To substitute the elimination of the benefit of income-tax splitting, because that is the only way I think we can constitutionally and legally do it.

Mr. President, I ask unanimous consent to have the chart which I have had prepared, being a comparison of the tax increases, if the benefits of income splitting were eliminated, with the tax increases under the House bill and the Finance Committee bill, printed at this point in the RECORD.

There being no objection, the chart was ordered to be printed in the RECORD, as follows:

Comparison of the tax increases if the benefits of income splitting were eliminated with the tax increases under the House bill and the Finance Committee bill

MARRIED PERSON—TWO DEPENDENTS

Adjusted gross income ¹	Present law tax	Increase over present law tax		
		House bill	Finance committee bill	Present tax rates with income splitting eliminated
\$5,000-----	\$420	\$53	\$46	\$2
\$6,500-----	690	86	76	29
\$7,500-----	877	110	96	54
\$8,500-----	1,075	134	118	90
\$10,000-----	1,372	172	150	168
\$15,000-----	2,486	311	277	572
\$25,000-----	5,318	665	588	1,998
\$50,000-----	15,976	1,997	1,780	5,558
\$100,000-----	44,724	5,591	3,568	11,880
\$500,000-----	356,956	27,821	7,437	25,180

¹ Income before deductions and before exemptions.

NOTE.—In computing the tax, a deduction of 10 percent of gross income was allowed at all income levels.

Mr. HUMPHREY. Mr. President, I now turn to the subject of withholding on dividends and corporate bond interest.

Mr. O'MAHONEY. Mr. President, will the Senator yield?

Mr. HUMPHREY. I yield.

Mr. O'MAHONEY. Mr. President, when the Senate met yesterday afternoon it was agreed that the amendments of the committee could be agreed to en bloc, under the consideration that if any amendment might be called up by any Senator, the committee amendment would be considered de novo. That is the understanding of the Senate. Unfortunately, I have to attend a meeting of the Appropriations Committee in a moment, and I wanted to make a note in the RECORD of my desire to have title 5 of the bill considered de novo. I want to devote a little time to the discussion of the changes made by the committee in the excess-profits tax, so that if any issue should arise on the floor during my absence I want the Senate to understand that at a convenient time, probably tomorrow, I shall seek an opportunity to discuss that point.

I thank the Senator from Minnesota.

C. WITHHOLDING ON DIVIDENDS AND CORPORATE BOND INTEREST

Mr. HUMPHREY. I am very happy to have the observation of the Senator from Wyoming.

When tax rates are high and burdens on all groups of taxpayers must be increased, it is necessary to provide the Bureau of Internal Revenue with the means to enforce the tax laws in the best possible manner. We know what it means not to have rigid enforcement of the law. There has been a loss of revenue because of our failure to have an adequate number of enforcement officers. It is acknowledged that in many areas of tax enforcement the cost of collecting all the additional taxes due from recalcitrant taxpayers would be exorbitant. For this reason the Treasury Department has been recommending for the past 2 years that a withholding system be adopted on dividends in order to

assist the Bureau of Internal Revenue in its tax enforcement efforts.

Last year the House adopted a dividend withholding provision which was eliminated in the Senate primarily on the ground that would have created substantial compliance problems for corporations, since it would have required corporations to submit to every stockholder a statement showing the amount of dividends paid and the tax withheld. This year the provisions adopted by the House is much simpler, and it is my understanding that it will involve relatively little additional work on the part of corporations. All the corporations would be required to do would be to withhold 20 percent from each dividend payment, and to pay this amount quarterly to the Bureau of Internal Revenue. No statement would be required to be submitted to the stockholder. The stockholder would be able to take credit for tax withheld on his tax return as in the cases of wages and salaries.

I cannot understand why a simple provision like this one, which involves very little additional paper work on the part of the corporations, and which is estimated to raise more than \$300,000,000 in revenue, can be objectionable. As I pointed out to the Senate last year, the amount of under-reporting of dividends on individual income tax returns is substantial. This may be just inadvertence; I would assume it is; but whether it is inadvertence or not, for the calendar year 1951 under-reporting of dividends will amount to over \$1,000,000,000. How do they determine that? They check up to see the dividends declared to the taxpayers—

Mr. DOUGLAS. Mr. President, will the Senator yield?

Mr. HUMPHREY. I yield.

Mr. DOUGLAS. There is also an allowance made, is there not, for a proper amount of dividends received by persons who would not be income tax payers.

Mr. HUMPHREY. Yes. I talked it over with the Treasury officials and they said they had been very conservative in their figures. They told me they had made allowances for persons who would not pay a tax anyway.

Mr. MILLIKIN. Mr. President, will the Senator yield?

Mr. HUMPHREY. I yield.

Mr. MILLIKIN. I think it should be said that some members of the committee who gave a good deal of attention to the subject do not have the slightest confidence in the Treasury's estimate as to the effect of withholding on the hundreds of thousands, perhaps millions, of persons who would not have to pay taxes, even if they reported what they received. The inconvenience to a vast body of American citizens is one of the reasons why that type of tax has failed so far.

Mr. HUMPHREY. I understand that is the argument. I just want to say, however, that it is very inconvenient for someone to withhold 20 percent from a man's wages when those wages are only \$25 a week. The Treasury has to refund a half billion dollars every year on payments made through overtaxation. We have become accustomed to that. The bill under which that has resulted was

passed by the Congress. However, I do not recall ever having received a letter from a wage earner who was angry because of the withholding. I know that under dividend withholding some people will be inconvenienced. I think it is very inconvenient to pay taxes anyway. We are endeavoring to obtain more money with which to pay the costs of our national defense, and when we reflect that a substantial number of dividend earners in the country are apparently under-reporting their dividends, I believe we should see to it that they are reported.

Mr. MILLIKIN. Mr. President, will the Senator yield?

Mr. HUMPHREY. I yield.

Mr. MILLIKIN. Of course we are trying to secure more revenue. I am discussing that area where we do not raise revenue because the individual who receives a dividend is not liable for taxes. I think that in conducting the Government we should give attention to the convenience of the citizen. We should not be harassing the citizen too much by having him make all kinds of reports and claims in order to get himself straight with the Government when he owes the Government no taxes.

Mr. DOUGLAS. Mr. President, will the Senator from Minnesota yield?

Mr. HUMPHREY. I yield.

Mr. DOUGLAS. As a matter of fact, would not the dividend withholding system be simpler for most taxpayers than the present plan, because there would be an automatic deduction of 20 percent by the corporation in the dividends paid, and that would remove from the average taxpayer the difficulty of figuring out precisely what his dividends and taxes would be for the year and making a correct listing? I believe it would make it simpler for the taxpayer. The method proposed by the House was that 20 percent of the total dividend be turned over to the Treasury. I believe that method makes it simpler for the average taxpayer. The provision does not necessarily result in a good deal of red tape, but really results in making the procedure simpler.

Mr. MILLIKIN. Mr. President, will the Senator from Minnesota yield?

Mr. HUMPHREY. I yield.

Mr. MILLIKIN. The withholding does not determine the tax. The withholding is either hitting the thing right on the button or it is not. In the latter event the taxpayer has to go through the whole rigamarole of figuring out whether the dividend is taxable. Again I come back to the basic observation that we do not have the facts before us which will enable us to determine the nuisance and harassment of the great bulk of American citizens who do not owe and do not pay taxes. I will say to the distinguished Senator that if anybody can show me that we are losing \$300,000,000 a year revenue through lack of withholding, I will be for withholding. I think the figures are fantastically distorted on the upside.

Mr. HUMPHREY. I have no way of knowing personally whether \$300,000,000 will be raised, but I have literally grilled the representatives of the Treas-

ury Department, and they tell me that these figures are on the conservative side, and definitely so. I further want to say that, while there will be a number of what may be called nontaxable individuals against whom there would be withholding of dividends, this problem was also evident with the wage withholding, and very much the same arguments were raised at the time that subject was under consideration. In 1948 the Treasury Department told me that nontaxable recipients received refunds amounting to \$900,000,000, but the wage withholding proved to be an effective means of gathering in revenue, and caused very little inconvenience. When the same method is applied to interest on corporation bonds as well as dividend withholdings, a sizable piece of revenue will be picked up.

Mr. MILLIKIN. Mr. President, will the Senator yield?

Mr. HUMPHREY. I yield.

Mr. MILLIKIN. Let me make a very simple suggestion on this subject. The whole reason for the lack of dependability of basic statistics and the whole reason why there is perhaps more evasion than there should be, is because the Bureau of Internal Revenue has not pursued the subject with sufficient vigor or with sufficient information. If the Bureau of Internal Revenue will get the list of stockholders and the amount of their dividends from the corporations that pay them, and if it will then really pursue a sampling all the way down the line, and from down at the bottom all the way up, and put some of the larger evaders in jail, just a few of them, it will end this problem so fast it will make your head swim.

Mr. HUMPHREY. I hope the Senator from Colorado is right. I may say to the Senator that I have no personal pride of authorship about withholding, because I am not the author of such an amendment. I simply feel that it is another way we can tighten up the tax laws where, because for every dollar that someone evades or avoids paying in taxes, somebody else has to pick up the check. That is what it amounts to.

Mr. MILLIKIN. Mr. President, will the Senator from Minnesota again yield?

Mr. HUMPHREY. I yield.

Mr. MILLIKIN. To my mind it comes to a balance between inconvenience and harassment of the citizen and some possible gain in revenue. We do not know how much the gain in revenue will be, but we know what the harassment of the citizen will be. I should like to see some more facts. As I said before, if there has been a \$300,000,000 loss of income, I am willing to go to withholding, but I am not willing to go for it on the very cloudy statistics which have been provided us, and which, amazingly enough, do not really reach down into the lower bracket people to see whether they would in fact have to pay taxes, or how many of them would in fact have to pay taxes if they reported their dividends.

Mr. HUMPHREY. I think it should be stated that the Treasury Department has made some cross-section study of this problem. The Senator from Colo-

rado knows that. I think it also should be stated that the average bondholder in the country—and there are 10,000,000 bondholders and stockholders—hold an average of \$100 in value. I think it should also be stated that the so-called inadvertence of reporting is not always inadvertence. My point is: Would not the majority of those who receive dividends prefer to have a withholding system rather than to allow a minority who escape their fair share of taxes continue to get away with it, thereby compelling us to increase tax rates upon those who do pay their taxes?

In other words, for every rascal who avoids paying his tax, when it is necessary to obtain a certain amount of money to pay the great bill for the defense program—somebody else has to pay a little bit more.

I think the argument made by the Senator from Colorado, while it is persuasive and is moving, is the same kind of argument that was made with respect to wage withholding—and he knows such an argument was made. It was argued that under the wage and salary withholding program thousands upon thousands would have to receive refunds, and it would be a great inconvenience to the businessman. Of course it was an inconvenience to him. There must be inconvenience for him. But the revenue was collected. It was a real source of revenue. Before we increase income tax rates, does not the Senator think it would be well to pick up \$200,000,000 or \$300,000,000 or even \$350,000,000 and get that into the kitty, before starting in on something else?

Mr. MILLIKIN. I should like to point out, first, that if the wage system works an injustice to the workingman I would not accept that as an argument for inflicting it on others. But let us pass that. There is a great distinction between a withholding tax we apply on the payroll man and this vast bulk of people who are unorganized and who do not have the collection and the bookkeeping facilities available which the employers in an industry can afford in connection with the withholding-tax process. There is this basic difference. The workingmen who have their taxes withheld are told again and again—and there is quite a little verity in what they are told—that they need not worry about the withholding tax, that their organizations will protect them in terms of take-home pay. "Don't bother your heads about this. We will take care of you," they are told; and the organizations do take care of them in good shape.

The great unorganized mass of citizens about which I am speaking does not have the benefit of that kind of operation.

Mr. HUMPHREY. But I am sure the Senator would not want his remarks to be interpreted as saying that they ought not to pay their taxes. He feels, of course, that every dividend ought to be reported.

Mr. MILLIKIN. Of course.

Mr. HUMPHREY. Where there is a tax due.

Mr. MILLIKIN. Where there is a tax due. The great open hole is that no

one can tell us how many people who do not pay taxes now, and who are not required to pay taxes now, would have to pay taxes if they reported the little dividend checks which they may get from time to time.

Mr. HUMPHREY. I suggest that 1 year's operation of the withholding would tell us that story.

Mr. MILLIKIN. I suggest to the Senator that 1 year's real operation by the Bureau of Internal Revenue in really running this thing down and putting some of the big evaders in jail would stop the practice. That is where we are told the largest loss is. It is not down below. It is up above. If we were to catch some of the people who are cashing their checks and not accounting for them, and put them in jail, just a couple of cases would put an end to a considerable part of the practice.

Mr. HUMPHREY. The optimism of the Senator is not shared by the enforcement officers. I should like to see a harder crackdown on this sort of thing. I was one of those who joined with the Senator from Colorado in a vote on the floor of the Senate to provide more enforcement officers for the Bureau of Internal Revenue. But I do not understand how we could expect to enforce dividend collection upon thousands of little dividend receivers.

Twice the House has incorporated this provision in a bill. Men of reason there, just as we have men of reason here, men who have listened to the testimony there, just as we have listened to it, twice in a row have placed in a bill a provision for dividend withholding and corporate bond interest withholding. Since it has been tried two times by the House, why do we not give it a whirl and see how it will work? It is not going to be catastrophic. It will not wreck anyone if it does not work well the first year. But if it will produce \$300,000,000 of revenue which we ought to get, we ought to try it.

Mr. LONG. Mr. President, will the Senator yield?

Mr. HUMPHREY. I yield.

Mr. LONG. I believe the Senator is making a strong argument for dividend withholding. I believe I voted for the Senator's amendment on the same subject last year. Will the Senator tell me how many stockholders there are in this country?

Mr. HUMPHREY. Approximately ten million.

Mr. LONG. What did the Senator say was the average stock dividend?

Mr. HUMPHREY. One hundred dollars.

Mr. LONG. If the average stockholding amounts to about \$100 in value—

Mr. HUMPHREY. That is correct.

Mr. LONG. Let us say that there are 10,000,000 stockholders, and that the average person receives a dividend of \$8 a year. Possibly he receives it in the form of quarterly dividends, \$2 a quarter. He would owe the Government 20 percent of the dividend. If he were the average person, he would owe the Government about 40 cents every time he received a dividend check. If he did not report the income, I think as a practical matter we simply could not put him in

jail. He would say that it was an inadvertence. Not a jury in America would send a man to the penitentiary for not reporting an \$8 dividend. The probability is that he would say that he forgot to report it—and perhaps he did.

Mr. HUMPHREY. He probably did.

Mr. LONG. The probability also is that that same individual is a wage earner who is subject to withholding, and for that reason, having nothing coming to him, he would not submit a return, thinking, possibly, that he did not owe the Government anything. He would have a pretty good argument to make before a jury. It would make the Government look pretty ridiculous to try to put a man in jail because he did not report an \$8 dividend.

Mr. HUMPHREY. Yet if enough of these little dividends are not reported, the wage earner will have to have his earned income tax rate boosted in order to make up for the loss of revenue.

Mr. LONG. Mr. President, will the Senator further yield?

Mr. HUMPHREY. I yield.

Mr. LONG. There is one further question involved. The average stockholder in America would owe, on a \$8 dividend, a tax of \$2. It would not be worth the expense of sending a Federal revenue agent to investigate him and run him down and find the \$2 which he owed. The overhead would probably consume the amount of money we might collect.

On the other hand, if a corporation has as many as 200,000 stockholders, if the 20 percent is collected in the beginning, we have the money. Most of the money would be collected through a simple bookkeeping entry by the corporation which issued the check.

Mr. HUMPHREY. Mr. President, I should like to correct a statement which I made a moment ago. I was somewhat dubious about it at the time. I stated that there were 10,000,000 stockholders, and I said that they owned an average of \$100 worth of stock. That is erroneous. They receive an average of \$100 in dividends annually.

Mr. LONG. That makes a substantial difference. Nevertheless, it would be found, with regard to the smaller dividends, which would represent a large portion, that the small amount which would come in would hardly make it worth while for a Government agent to attempt to ferret out the recipients of the dividends and see that they paid their taxes.

Mr. GEORGE. Mr. President, will the Senator yield?

Mr. HUMPHREY. I yield.

Mr. GEORGE. I wish to call the Senator's attention to this fact, which is often overlooked: In the case of withholding on wages, the wage earner is entitled to his full exemption. That is, he is entitled to all the statutory exemptions, \$600 for himself, \$600 for his dependents, and the statutory exemption of 10 percent where he does not itemize, but uses the short form.

However, this 20-percent proposal is on the gross. Let me illustrate what that would mean in actual practice. Divi-

dends are drawn in this country by people of all ages, but many relatively small dividends are drawn by old people. Take the case of an old couple. Let us assume that they have an income of \$2,000 derived wholly from dividends. They are both past 65 years of age, and they have an exemption of \$2,400. They do not owe a penny in taxes, but under this harsh proposal for a 20 percent tax on the gross of the dividends, a total tax of \$400 would be taken from those citizens who are nontaxpayers, and they would probably have to wait for several months and go to the trouble of filing a petition for a refund, or make a return showing that they were not liable for taxes. I think the Senator might be surprised if he could look through my mail and see the large number of communications from men and women who say, "We have passed the age of 65. We are 70, and we have a small amount coming in—\$1,000 or \$1,100. To take that large a tax out of our gross income would reduce us to a very sad state, until we could in some way get the Treasury to make a refund."

The distinguished Senator from Colorado [Mr. MILLIKIN] has emphasized the fact that we have no dependable cross-section sampling on this very important question. The distinguished Senator from Colorado may have called attention to the fact, but, if not, I am sure he will recall that even after we went into executive session, we brought before the committee men from the Bureau who make these tests. The tests were run in such a way as to leave me wholly unconvinced that they were sufficiently trustworthy for us to reach any firm decision or take any defensible position as to just what a thorough sampling might show with regard to dividend withholding. It is not the purpose, of course, to try to protect any dividend recipient. That was not the reason why the committee did not include this provision.

Mr. HUMPHREY. No.

Mr. GEORGE. If the committee could be sure that it was needed, in the first place; secondly, that other methods would not be quite as effective; and third, if we could work out some program under which recipients who are nontaxpayers could be protected against the rather harsh remedy of withholding a certain percentage of the gross total dividend receipts, the committee would be entirely willing to go along with the proposal.

Mr. HUMPHREY. I thank the Senator from Georgia. I have had many discussions with representatives of the Treasury Department on this subject. They were of the opinion that the sampling was reasonably adequate. They were also of the opinion that the sums of money which have been bandied about as estimates are very conservative. I can fully realize this problem. I feel that this is something that we ought to thrash out here in debate. We shall offer an amendment and get the vote of our colleagues. We hope to win. It is patently clear that there is some substantial loss in revenue. How we can best cor-

rect that situation is the question. For the moment the solution seems to be dividend withholding.

I would point out to the Senator from Georgia that when the Treasury Department was working with certain corporations they did not want to accept a dividend-withholding plan because they did not desire to calculate exemptions, and so forth. They wanted 20 percent on the gross, not 20 percent on a net figure. It would be impossible to make such calculation without tremendous bookkeeping procedure.

Mr. MILLIKIN. Mr. President, will the Senator yield?

Mr. HUMPHREY. Yes.

Mr. MILLIKIN. Something was said by the distinguished Senator from Louisiana [Mr. LONG] about putting people in jail. He has given me the impression that possibly he misunderstood what I said. I do not want to put people in jail, certainly not the people in the low income brackets who do not owe any income tax. I pointed out that under the testimony of the Treasury Department the big violators are among the big income receivers. In that group there are a great many people who hire bookkeepers and auditors. When they catch such people taking a check and sneaking it to the bank and getting the money for it without entering it in their accounts I suggested that they be put in jail, or at least enough of them to stop that practice.

Mr. LONG. I am glad to have the correction made by the Senator from Colorado. Nevertheless, it would seem to the junior Senator from Louisiana that we should also make sure that we collect the taxes due even from those who are receiving small dividends. If taxes are due from those persons they should be made to pay them. As a practical matter, those receiving very small dividends would owe only a very small amount, and we could hardly expect them to be subject to any criminal liability of any consequence, because of the fact that the jury would be very sympathetic to a small taxpayer who would be prosecuted for a very small amount due, like a dollar or two.

Mr. MILLIKIN. I am in complete sympathy with such people, and I should like to be on the jury so that I could acquit them.

Mr. LEHMAN. Mr. President, will the Senator yield?

Mr. HUMPHREY. Yes.

Mr. LEHMAN. I think there is much in what the Senator from Minnesota has said, and there is a great deal to what the distinguished chairman of the Committee on Finance has stated. I wish to point out to the Senator from Louisiana that under a system of withholding there would be no question whatever of proceeding criminally against anyone, because the tax would be withheld by the corporation, either for dividends or for corporate interest. There could be no question of any criminal action.

Mr. LONG. Mr. President, will the Senator yield?

Mr. HUMPHREY. Yes.

Mr. LONG. I believe we are talking about two different things. There would be many taxpayers who would have a liability in addition to the amount withheld, because many taxpayers would owe not only 20 percent, but over and above that amount, because they might be put into a 30 or 40 percent bracket, and thereby they would owe an additional tax liability on their dividends.

Mr. HUMPHREY. That is correct. I thank both the Senator from New York and the Senator from Louisiana, and of course, I am grateful to the distinguished chairman of the committee and the ranking minority member of the committee, the distinguished Senator from Colorado, for their comments. That is the way in which the Senate gets information.

D. ESTATE AND GIFT TAXES

I should like to say a few words about estate and gift taxes. I have prepared a statement which I shall skim through, but which I shall ask to have incorporated in the RECORD. I ask unanimous consent to have a 5-page statement on estate and gift taxes incorporated in the RECORD as part of my remarks.

There being no objection, the statement was ordered to be printed in the RECORD, as follows:

D. ESTATE AND GIFT TAXES

Except for the estate and gift-splitting provisions which were enacted in 1948, the estate and gift taxes have remained untouched since 1942. The opportunities to avoid high-transfer taxes by placing property in trust or making gifts still remain open for those who have skilled legal counsel. The 1948 provisions, moreover, undercut substantially the effectiveness of the already weakened rate structures of these taxes. In their present state, the estate and gift taxes are no more than a mere appendage of the tax system—they raise less than a billion dollars out of a total of \$61,000,000,000 this year during a period when income taxes have increased eighteenfold since 1939.

The weakness of the present estate taxes is due to the fact that, while all other taxes were increased very substantially in the 1940's, the estate- and gift-tax rates and exemptions remained the same. The exemption for estates remains \$60,000 and the lifetime exemption for gifts remains \$30,000. In addition, the 1948 amendments permitted married persons to exclude one-half of their gifts from the tax base and the estates of decedents who were married at death are allowed deductions for one-half of the total estate if it is transferred to a spouse, thus in effect doubling the exemption. These splitting provisions gutted whatever effectiveness the estate tax may have had even at the low rates that applied at that time. Their effect was to decrease the total estate-tax yield by a third. Before the 1948 amendments a \$10,000,000 estate of a decedent who was married at death paid an estate tax of \$5,000,000. As a result of the 1948 amendments that tax was reduced to \$2,000,000 if one-half the estate was transferred to the spouse, a reduction of 60 percent.

Keeping the estate and gift taxes ineffective at a time when we must increase the burdens on low- and fixed-income groups who are barely able to make ends meet is unconscionable. The primary objective of the gift and death taxes is to prevent accumulation of vast estates and to reduce the tremendous inequality of wealth. Although we have had an estate tax since 1916 and a gift tax since 1932, there has been little apparent reduction in the vast fortunes and

in the concentration of control of private wealth in the United States. This demonstrates how ineffective a tax can be when loopholes are provided to escape from it.

It is disappointing that the Finance Committee did not see fit to look into the estate and gift taxes as a means of raising revenue at this time. I believe that we should not allow a tax bill to go through without an adjustment in this area. I intend to introduce amendments which would (a) repeal amendments of the Revenue Act of 1948; (b) increase the tax on estates and gifts by 15 percent; and (c) cut the exemptions in one-half. In total these amendments would raise \$600,000,000 which are vitally needed at this time to pay for defense commitments.

This figure is about half of the reserve which the committee has recommended be raised by excise taxes—burdens which fall mainly on low- and moderate-income groups. Closing these loopholes would more than make up for the \$488,000,000 to be raised through manufacturer-excise taxes.

I ask that a table found on page 96 of Senate Finance Committee Report No. 781 be incorporated at this point in the RECORD.

(In millions)

	House bill	Committee bill
Gasoline, and Diesel fuel used by highway vehicles.....	\$220	\$210
Passenger cars, motorcycles and house trailers.....	196	189
Automobile trucks, busses, and truck trailers.....	61	61
Automotive parts and accessories.....	56	56
Tires on toys, etc.....	-1	-1
Electric, gas, and oil appliances.....	18	69
Navigation receivers sold to the U. S. Government.....	None	None
Refrigeration equipment.....	0	Negligible
Sporting goods.....	Negligible	Negligible
Photographic apparatus and film.....	-23	-5
Electrical energy.....	-4	-4
Fountain pens, ball-point pens, and mechanical pencils.....	24	12
Cigarette, cigar, and pipe lighters.....	0	1
Total.....	447	488

It describes the effect of the manufacturers excise tax in specifics. I likewise bring to the attention of the Senate that included in the consumer items on which additional excise taxes are to be levied under the committee bill are the following 18 items: (1) Electric vacuum cleaners, (2) electric washing machines, (3) electric garbage disposal units, (4) exhaust blowers, (5) electric belt-driven fans, (6) electric or gas clothes driers, (7) electric door chimes, (8) electric dehumidifiers, (9) electric dishwashers, (10) electric floor polishers and waxers, (11) electric food choppers and grinders, (12) electric hedge trimmers, (13) electric ice-cream freezers, (14) electric mangles, (15) electric motion- or still-picture projectors, (16) electric pants pressers, (17) power lawn mowers, (18) electric sheets and spreads.

I again repeat, Mr. President, that at a time when the American Congress is placing heavier tax burdens on the American consumer through heavy excise taxes and on the American workingman, farmer, and small-business man, the bill before us would grant special tax privileges to the few in the form of estate- and gift-tax loopholes. I see no justice in this.

Mr. HUMPHREY. Mr. President, briefly, what the statement says is that when we altered the estate- and gift-tax laws in 1948 through a series of amendments the laws were very much weakened, thereby cutting down sizable sources of revenue. My argument is

this: Regardless of whether estate and gift taxes are pretty rough on the person who has to pay them, the fact remains that if we raise corporate taxes and individual income taxes and do not touch estate and gift taxes we will not bring up the tax floor equitably. We may bring up the living room side of it, or the dining room side of it, but we would leave the kitchen side down. We must bring up that part of it, too. That was my argument on capital gains. The amendments placed in the law regarding estate and gift taxes resulted in a substantial reduction in revenue. We have lost a considerable amount of revenue. If it were not for the 1948 amendments it is estimated that we could raise \$600,000,000.

Mr. LONG. Mr. President, will the Senator yield?

Mr. HUMPHREY. I yield.

Mr. LONG. Actually, is it not true that the class of people who are paying the estate and gift taxes are those who have the greatest interest in the capitalistic system?

Mr. HUMPHREY. Yes.

Mr. LONG. Because as a class that group receives most from the capitalistic system and puts up a relatively smaller amount of tax in order to receive the full benefit of the leisure and enjoyment of wealth and private property, which many Americans give their lives to defend without fully enjoying.

Mr. HUMPHREY. The Senator from Louisiana is right. He has made a very telling point about those who have the real stake in the continuation of a free economy, and who have a very real stake in terms of the kind of industrial system we have.

Mr. LONG. Since so much of our expenditures are directed toward preventing our country from being taken over by our enemies or by a Communist form of government, those who stand to lose the most certainly should be willing to bear their fair share of the expense of maintaining the capitalistic system.

Mr. HUMPHREY. Yes. It is my purpose to offer an amendment which would repeal that provision in the tax law, increase taxes by 15 percent, and cut the exemption in half. According to the Treasury Department it would raise \$600,000,000. We must close the loopholes. We have an alternative, of course. When we raise money we must make up our minds where we are going.

Are we going to revise our gift and estate taxes in the wealthiest nation of the world—I repeat, Mr. President, in the wealthiest nation in the world—or are we going to put excise taxes on manufactured items? What kind of items are they? For example, an excise tax is levied on the 18 items which are included in the pages which have been printed in the RECORD.

Let us take vacuum cleaners. Who generally buys the vacuum cleaner? It is bought by the average American citizen. My family bought one very recently. It does seem to be very equitable, since we are really pulling hard to get the revenue for our defense efforts, to have at least some increase in estate and gift taxes rather than have Mrs.

Jones pay a little excise tax on an electric vacuum cleaner. Under the committee bill \$488,000,000 would be collected on such items.

For example, let us take electric washing machines. When did they become a luxury? I invite the careful attention of the Senate to my comments on excise statements in the statement incorporated in the RECORD.

Mr. KERR. Mr. President, would the Senator from Minnesota yield for the purpose of having a quorum call?

Mr. HUMPHREY. I shall be delighted to do so.

Mr. KERR. Mr. President, I ask unanimous consent that there may be a quorum call without the Senator from Minnesota losing his right to the floor.

The PRESIDING OFFICER. Is there objection? The Chair hears none, and it is so ordered.

Mr. KERR. Mr. President, I suggest the absence of a quorum.

The PRESIDING OFFICER. The clerk will call the roll.

The Chief Clerk proceeded to call the roll.

Mr. KERR. Mr. President, I ask unanimous consent that the order for a quorum call be rescinded and that further proceedings under the call be suspended.

The PRESIDING OFFICER. Is there objection to the request of the Senator from Oklahoma? The Chair hears none, and it is so ordered.

E. MULTIPLE EXEMPTIONS FOR MULTIPLE CORPORATIONS

Mr. HUMPHREY. Mr. President, I thank my friend, the Senator from Oklahoma, for giving me the benefit of a quorum call. It is very much appreciated. I shall try to move along now into another area of the tax bill. As we open up these areas of the tax bill, it becomes evident that even taxation can be interesting. These tax details and technicalities take on life once one starts to look into them to see how they apply to the economy and to the individuals concerned.

I should like to discuss, merely for the moment, the multiple exemption for multiple corporations. That is quite a bit of terminology. It is a mouthful. But it has an interesting story in it.

In order to tax individuals and corporations on the basis of their ability to pay, the income-tax laws have always made some exemptions for people and corporations with very small or relatively small incomes. This again is a matter of policy. To promote competitive enterprise, to recognize the principle of ability to pay, we have made certain exemptions for people and corporations who are small in terms of their incomes. Each individual is exempt from tax on the first \$600 of his income. Thus, a person whose income is only \$600 pays no tax. This is simple equity.

The same principle of alleviating the tax on the very small corporation from tax has always been followed under the income-tax laws. All corporations are subject to a normal tax of 25 percent, but those with profits of less than \$25,000 are exempt from the surtax of 22 percent, under the present law.

The purpose is to avoid making small and new corporations pay the general rate of 47 percent which is applicable to large corporations. In addition, a minimum of \$25,000 of the income of each corporation is exempt from the excess-profits tax. This, again, as I say, is a policy decision on the part of the Government to have the Congress promote the development of economic enterprise; and I certainly concur in that policy decision.

Suppose, however, that a corporation earning \$250,000 wants to escape the income and excess-profits tax. If the corporation's business can be subdivided into 10 components, 10 little entities, the corporation can divide like an amoeba, into 10 new corporations, each of which then has an income of only \$25,000, a neat trick if one can make it work. None of the components of the corporation pays any surtax or excess-profits tax. This applies pretty much in the chain-store area. If there is a corporation which can divide itself up, as I said, like the amoeba, by simply splitting off, and continuing to split, and if there is a \$250,000 integrated corporation, it can be divided up into 10 packages of \$25,000 apiece, and it is unnecessary to pay any surtax, and it is unnecessary to pay any excess-profits tax.

I say that that kind of loophole in the tax law leads one into temptation. I am not going to say that every corporation does this—not by a long shot, because I happen to have great respect for the people who manage our business enterprises—but occasionally someone becomes a little hungry, his appetite gets the best of him, and this, after a fashion, is an opportunity to satisfy that appetite.

To take an example which I have used, and I take it because it is one that I know would not carry out such a plan, and I want it perfectly clear that I make no reference to the company in any derogatory terms—imagine a company like the Atlantic & Pacific Tea Co. It has 5,000 stores throughout the country. Under existing law, A. & P. might be able to incorporate into separate subsidiaries each of its stores. After all, a grocery store is a separate entity in a sense. Many individual grocery stores are separate corporations—and, by the way, they are generally supermarkets. A. & P. might be able to make a good case for the proposition that it was entitled to incorporate each of the 5,000 stores separately, and thereby A. & P. could multiply the \$25,000-exemption 5,000 times and theoretically, at least, be exempt from surplus and excess-profits taxes of \$125,000,000. I do not think they ever would do it; indeed, I am confident of it. There is no evidence to lead us to believe that they ever would contemplate such a move, but I say that within the law as it now is, it is possible to do that.

Mr. DOUGLAS. Mr. President, will the Senator yield?

Mr. HUMPHREY. I yield.

Mr. DOUGLAS. I am much interested in the Senator's analogy that the splitting of corporations is similar to the splitting of an amoeba. As I remember, the amoeba is the lowest form of animal

life, and to the degree that there has been an evolution of animal life it has been up from the amoeba to a more complicated animal structure. What the Senator is trying to prevent is having life go back into the amoeba stage.

Mr. HUMPHREY. That is correct.

Mr. DOUGLAS. The Senator is trying to prevent devolution and to promote evolution.

Mr. HUMPHREY. That is correct. The Senator from Illinois not only puts it persuasively, but it puts it eloquently. He has a great knowledge of the natural sciences, which makes this debate sort of bubble along.

Mr. LONG. Mr. President, will the Senator yield?

Mr. HUMPHREY. I yield.

Mr. LONG. I suppose it is in line with the Senator's argument that a corporation might have wells in different fields, and in every field where it had wells producing no more than about \$25,000 a year they could simply split that part off into a separate corporation and thereby avoid the excess-profits tax.

Mr. HUMPHREY. I think that is possible. It is certainly a loophole. When we raise the income-tax rate and the earned-income rate we must shut these doors, because the tendency is to crowd people into illicit practices. What corporation likes to pay such a tax? I do not blame them for not liking it, but it is a very necessary tax. If we leave these little breaks in the building of our tax structure someone tries to sneak through. Let us nail this thing down so that that cannot happen.

Mr. LONG. Certainly the Senator would not blame any attorney if the attorney could point out to a client that by breaking one corporation up into three corporations having the same stockholders in each corporation and having three boards of directors they could save \$10,000 or \$15,000 in taxes for themselves and for their stockholders. The attorney could not do anything other than to advise his clients that that could be done. After all, an attorney is paid to advise his clients as to the law and what they can do under certain circumstances and conditions.

Mr. HUMPHREY. I know that under existing law, passed in 1944, section 129 of the Internal Revenue Code, the Congress has authorized the Commissioner to disallow exemptions where corporations are spawned purely for tax avoidance purposes.

However, where the business can show even some minor business purpose for splitting its business into several corporations, the Tax Court has stopped the Commissioner from disallowing these exemptions. *Alcorn Wholesale Company et al. v. Comm'r* (16 T. C. No. 10 (1951)), grocery chain operating in five different towns in Mississippi split into five different corporations; *Berland's, Inc., of South Bend* (16 T. C. 24 (1951))—chain of retail shoe stores consisting of 51 existing branches. Twenty-two of the branches were separately incorporated and 22 separation exemptions thereby obtained.

As we increase the rate we must be sure that we do not have any soft spots

where there is an invitation to push through. It is like bringing up a family in a metropolitan area where temptation is much greater than it would be in a serene rural area. The father and mother have a greater responsibility.

We are getting into a complex tax structure with very heavy rates, and we must make it crystal clear and be sure that we do not leave a lot of loopholes that someone can go through or even peep into.

Mr. LONG. The point I was making to the junior Senator from Minnesota was that we certainly should not blame anyone for avoiding taxes if he can do it legally. It is our job to see that where the tax is due there is not a legal method of avoiding it.

Mr. HUMPHREY. A number of multiple corporations were created for good business reasons and have existed in divided form for a long time, and, as such, they are performing a good business purpose. Long before there was any tax advantage in dividing a business into a vast network of separate corporations, I know that we had the problem of giant chains and giant interlocking corporations. I do not say that the tax laws should be invoked to prohibit such corporations from spawning new corporations. All I say is that the tax laws should be corrected when they encourage and give enormous tax advantage to these multiple, multi-headed giants.

Mr. DOUGLAS. Mr. President, will the Senator yield?

Mr. HUMPHREY. I yield.

Mr. DOUGLAS. Is not the Senator endeavoring really to carry out the injunction in the Lord's Prayer, in which our Saviour said, "Lead us not into temptation, but deliver us from evil?"

Mr. HUMPHREY. That is correct. The Senator has not only refreshed this debate by his observations upon the sciences, but now he goes into the spiritual realm. I did not know we would come to that so soon.

Mr. MORSE. Mr. President, will the Senator yield?

Mr. HUMPHREY. I yield.

Mr. MORSE. I should like to file a caviat in objection to the observation of the Senator from Louisiana [Mr. Long]. If I caught correctly his observation, it was that we do not object to anyone avoiding the payment of taxes if he can do so legally. I want the RECORD to show that I object to that practice and have objected to it under a great many circumstances.

Later on I desire to discuss at some length what I think the charitable trust is doing to this country in the tax field. It has become a legal racket. Under the guise of the legality of the charitable trust we are encouraging many people to cheat the Government. Too many people are abusing the legality of the charitable trust, and we must take steps to plug up that loophole. As a lawyer, let me say that I have advised clients who wanted to use this device that I would not be a party to developing a charitable trust for them, because I did not think they could do it legally and within the letter of the law. I knew that in their own hearts their motive was to

cheat, to do something which they knew under the economic circumstances of the case was morally wrong.

Mr. HUMPHREY. The Senator from Minnesota fully understands that whenever someone engages in one of these immoral or unethical practices, someone else has to pay a larger tax. If some group can get by without paying the \$50,000,000 they ought to pay, someone else must pay that sum. We cannot escape paying the fiddler. We are building for ourselves a great defense structure for the purpose of maintaining our system of Government and our way of life, and Congress has authorized appropriations and has ordered the Government to move ahead in building a bulwark which will be absolutely irresistible and insurmountable. That cannot be done without paying the fiddler. If someone does not pay his share of the bill, then someone else has to pay more than his share. That is the simple truth of the matter. I am not pleading that any Senator, any worker, any doctor, lawyer, or clergyman should have his taxes reduced. No man can stand before his country and say our burdens will be less. I am simply saying that all should shoulder the burden equally, equitably, and fairly and I do not like to see a lot of tricky plays, smooth plays, by means of which somebody can get by without paying his fair share. It is not morally right, and at this time, in terms of patriotic devotion to the Nation, it is definitely wrong to permit it.

Mr. MORSE. Mr. President, will the Senator yield?

Mr. HUMPHREY. I yield.

Mr. MORSE. As a preface to our forthcoming debate on the charitable trust situation, which will be a very lengthy one, I assume, I wish to associate myself with the fine principles the Senator from Minnesota has just enunciated. I think the principle he set forth in his last remarks is a great tribute to his statesmanship. I should like to know if he agrees with me that a church or a college or a so-called charitable institution that, separate and distinct from its college activities or its church activities or its charitable activities, owns a business, as it is now permitted to do under the charitable trust provision in the present law and in the laws of many States, or, let us say, owns an office building in some adjoining city from which it receives a large income each year, but in regard to which it is exempt from paying taxes, furnishes a good illustration of an institution placing a burden on other groups. It operates a business enterprise on which it does not pay taxes, but on which it ought to pay taxes, because it gets police protection, fire protection, and all the other services that go into tax costs. Is it not a good example of the advantage which can be taken of a tax loophole of that kind, when by what might be an immoral act, if one considers the morality of the situation, some churches, some lodges, some hospitals, some charitable institutions, are really operating today at the expense of all the taxpayers of the Nation?

Mr. HUMPHREY. What I have been trying to prove all day—I do not know with what success, but I have endeavored to present the case to the best of my ability—is that the further the tax rates are pushed up, the greater is the temptation to avoid taxes and the greater is the opportunity for those who can perfect devices to avoid taxes. Therefore, Congress owes it to every citizen to cover the weak points once and for all, to slap on top of them another board to pin them down so nobody can sneak through, because he must think of what will happen when we get through with this tax bill. I say "this tax bill," but does anybody believe this tax bill is the end of what we are going to do about taxation? This is a stopgap at best. I may say it is a very heavy bill, providing for \$5,500,000,000. But surely we all recognize by now, I am confident, that if the present situation continues, and it may become worse, we will have to raise even more money than is provided in the pending bill.

Mr. DWORSHAK. Mr. President, will the Senator yield for a question?

Mr. HUMPHREY. I yield.

Mr. DWORSHAK. While the Senator from Minnesota is discussing loopholes in tax statutes and the ethics of tax collections, does he care to comment upon recent disclosures which indicate that officials of the Internal Revenue Bureau have been in collusion with many taxpayers in high-income levels who have deliberately sought to evade their share of the payment of the taxes, and the resultant effect upon the morale of taxpayers generally who make an honest effort to pay their just share of taxes?

Mr. HUMPHREY. I am delighted to comment upon it. Let me tell the Senator from Idaho the position of the Senator from Minnesota as to corruption wherever it is found. Those guilty ought to be prosecuted. Whether they are Democrats or Republicans, or internal-revenue agents, or whatever they may be, if they are crooks, they should be prosecuted, and prosecuted with the full vigor of the law. I say in all candor, let us be sure the charges can be proved. But thorough investigation of any agency of the Government for the purpose of determining its efficiency and its cleanliness and wholesomeness and honesty is always within the right of the Congress. That is our responsibility and our duty. Never will this United States Senator go around trying to apologize for any kind of a political party when it gets into trouble in which it ought not to be. I am a Democrat, and I am proud of it, but I am not proud of crooked Democrats or crooked Republicans or crooked Americans. So let us not bring this issue into the discussion. I say whoever they are, whatever offices they hold, whether they be high or at a local level, if they are crooks, let all of them, large and small alike, be prosecuted. I have had some experience at a local level. I do not worry over whether the wrongdoers are on this side or the other side, and perhaps that is why I came to the Senate. So let us not drag that issue into this discussion. If any internal revenue agents are

crooked, we have laws under which we can check up on them. We have district attorneys and judges. However, let us not impugn the honesty of the great rank and file of those in public life.

When we think of the temptations that face these people we should also remember that most men in public service are honest. The temptations do not deter citizens most of whom work for the Government at half the salary they could receive in private industry.

I think of the man who is the expert of the Committee on Finance, Mr. Stam. I suppose he knows more about taxation than the junior Senator from Minnesota will know in his lifetime. I suppose this man could go out privately and make himself a fortune. But he has devoted his life and efforts to the interests of the people of the United States. The same can be said about other members of the staff around here. For everyone who can be found who has debauched himself and his profession will be found a thousand who have not.

I desire to pay tribute today, first of all, to the honor of the great rank and file of the people in the Internal Revenue Bureau. I wish also to pay tribute to the honor of the American public. Name me any public in the world that is as honest in paying its taxes as are the American people. Do Senators realize that most taxes cannot be enforced; that with the number of agents we have we cannot possibly inspect all the returns? The people of America are honest, they are abiding by the law, not violating the law.

Mr. President, I did not mean to get into that line of debate, but the Senator from Idaho asked me a question which brought me into it. I want the record to be perfectly clear as to where this United States Senator stands.

Mr. DWORSHAK. The Senator from Idaho had no intention of distracting the Senator from Minnesota from his argument. However, the Senator from Minnesota will agree that the recent revelations, indicating that there has been corruption and collusion, certainly are disruptive of the honest reporting of incomes and the maintenance of the confidence of the American people in their officials.

Mr. HUMPHREY. It always is disruptive, it is always injurious to public confidence, when anyone breaks his trust. We have read recently of how a cashier in a bank in Pennsylvania embezzled a certain amount of funds. I suppose such an occurrence upsets people's trust in the banking profession. But let us make it crystal clear that the thousands of people who work in our banks at the salaries which most of them receive, with the temptation that is theirs, they are a very honorable group of people. They really are honest.

Mr. President, I merely point out, with respect to what we call multiple exemptions for multiple corporations, that the House adopted a provision whereby only one exemption would be allowed to a chain of corporations where they were all controlled, to the extent of 95 percent, by the same parent company, or the same individuals.

The House bill does not prevent the multiplication of corporations. I am not saying that multiplication of corporations is necessarily undesirable. It merely makes the tax system neutral as to whether the corporation should or should not split up. As a matter of fact, as the law now exists, I do not see how a business can resist the temptation to multiply itself into as many corporations as there is any basis for forming, in terms of business functions.

I therefore recommend that the Senate approve the House provision. I do not believe that we should sanction the existing loophole, and I believe particularly that in the context of this bill, which contains so many statutory loopholes anyway, we should endeavor at least to close this one.

F. CAPITAL GAINS ON SALES TO RELATED TAXPAYERS

There is another part of the tax bill called capital gains on sales to related taxpayers. Who would ever think that capital gains on sales to related taxpayers could have sex appeal? But it has.

Section 310 of the House bill was directed against an abuse of the capital gains rules which has gained considerable popularity during the past decade of rising prices. This is the realization of a capital gain on a technical transfer of depreciable properties in order to enjoy increased depreciation allowances against ordinary income. That is a big mouthful, but that is what it is. The House proposed to prevent the continuation of this practice. The Committee on Finance voted, I believe, to strike this section from the bill. At the time I was writing this part I had not seen the final words of the bill, but I have been told today that the bill does not include this provision of the House.

Let me state an example of the type of thing which the Finance Committee action condones. Suppose John Smith constructed an apartment house in 1931 at a cost of \$1,000,000. Let us say that the building is subject to depreciation over a 40-year period, which is a pretty good average depreciation period. So in the intervening 20 years, half the cost has been written off against Smith's income, and half remains to be deducted in the next 20 years. But this system of amortization for tax purposes does not reflect what has actually happened to the value of the building.

Rather than having been reduced by half, its actual value is now double the original cost, or \$2,000,000. John Smith, after seeing a tax lawyer, decides that he will sell the building to his wife. She borrows most of the purchase price, and the deal is consummated.

What is the result? First, the Smiths still have the apartment house. Second, even considering them separately, neither Mr. Smith nor Mrs. Smith is any richer or poorer than before the transfer. The sale was at the current market value. Third, Mr. Smith must pay a capital-gains tax at a 25-percent rate, and this would amount to \$375,000. Fourth, Mrs. Smith has a \$2,000,000 basis to deduct over the next 20 years instead of a \$500,000 basis, which means a \$75,000 greater deduction against ordinary income. This means, in the

Smiths' tax bracket, income-tax savings of \$50,000 a year for 20 years, or \$1,000,000. Finally, at the end of the 20 years, they can sell the property, with its stepped-up basis, at much less tax cost than if the transfer to Mrs. Smith had not occurred.

This is a highly technical subject. We have a building which actually cost \$1,000,000. The building depreciates over 40 years' time. Twenty years have gone by, so half the cost has been deducted for tax purposes. What does the taxpayer do? He calls in Ma, makes a quick deal, and transfers the building to her. She borrows the money. It is all still in the family, but the legal title is in her name. The building is now worth \$2,000,000 instead of the original \$1,000,000. There is still 20 years to go for depreciation.

Mrs. Smith now can take off in the next 20 years double the amount of depreciation which came off in the first 20 years, which provides her with sizable tax relief—a deduction of \$75,000 a year greater. This means about \$50,000 a year in income tax for 20 years, or a total of \$1,000,000. Mrs. Smith paid only \$2,000,000 for the building, which had been depreciated by \$500,000.

This sort of thing is possible for two reasons. One is that a husband can sell to his wife, or to his wholly-owned or self-owned corporation without parting with his investment in a practical sense. This reason was recognized by the Congress as far back as 1934, when it denied deductions for losses on such sales. Conditions have changed somewhat since the early thirties, and fortunately we are now called on to legislate with respect to gains rather than losses. Back in the 1930's, this situation was looked upon with some alarm, so any losses in this kind of fancy deal were denied. Such losses could not be deducted. Now we are talking about gains. We are going to permit gains; and I submit that we should be no less realistic in our assumptions than were our brethren 17 years ago.

The other reason is that capital gains tax rates have been allowed to continue at a level so far out of line with the rates applicable to ordinary income. This is the root of the evil. If it is not to be dealt with directly, the least we can do is to accept the House measure, which cures one of its worst manifestations.

G. LOOPHOLES CLOSED BY THE BILL

Let me pay tribute to the bill, and to some of the loopholes it has closed. I would be remiss if I did not call attention to the fact that this bill closes two important loopholes.

The most important of these is the elimination of the so-called 2-for-1 offset of short-term capital losses against long-term capital gains. In nontechnical terms, the problem is this: If an individual makes a loss on an asset held for less than 6 months, he is given a full deduction for such loss. On the other hand, if he makes a gain on an asset held for more than 6 months, that gain is cut in half before it is taken into account for tax purposes. That is the present law. The result is that an indi-

vidual with a \$1,000 short-term capital loss can offset completely a long-term capital gain of \$2,000. Thus, even though he made \$1,000 in a given year, he would not be subject under present law to any tax. The closing of this loophole will be especially important in keeping speculators from avoiding their fair share of the tax; and I should like to congratulate the chairman of the Senate Finance Committee and the members of that committee for the courage they have displayed in closing this loophole.

Another avenue of tax avoidance which the Finance Committee closed was the loophole by which dealers in securities shift securities from their own account to their business account and vice versa in order to obtain the maximum tax benefits. If the dealer makes a capital gain on the investment he reports it as his own income and gets the preferential capital gains treatment, which means that he is subject to a maximum rate of 25 percent. If he makes a loss on the investment, he reports it as his business loss, and gets full deduction for it, the value of which may be as high as 91 percent if he is in the topmost surtax bracket. To forestall this practice, the bill provides that in the case of dealers in securities, capital gains treatment will be available only under certain restricted conditions which will prevent them from shifting their assets from their own accounts to business accounts.

Had Senators realized that there were so many quirks in the tax laws? Who ever dreamed of it? Imagine going to Illinois, Iowa, Minnesota, South Dakota, or any other State in the country and talking to the kind of people one meets day in and day out, any saying to them, "Have you ever heard about the 2-for-1 offset?" The only 2 for 1 they have ever heard about is the 2-for-1 sale at the Rexall 1-cent sale. They never heard of the 2-for-1 offset. That is a Fancy Dan. That is one of the clever devices which one pays a considerable fee to hear about. But, of course, when it is applied, it deals with a sizable crop.

How many people whom we have met could talk intelligently about the second loophole which the committee has closed, namely, the one in connection with sureties? Most of the folks out my way with whom I have talked would simply say that one was talking about "Shirley."

The trouble is that in considering some of these tax measures we fail to understand that we are not merely legislating for a handful, but for the great rank and file of our people. I think the committee has demonstrated the kind of insight and courage in closing these two loopholes that I want them to demonstrate in several other loophole areas which we have pointed out in this discussion.

In total these two items will not raise a great deal of revenue. However, even though it is a small amount, it is none the less a good start. Unfortunately the committee has more than made up for this revenue gain by including in the bill a large number of new loopholes which cost much more than the revenue raised by these new provisions.

I should like now to turn to an examination of the new loophole-opening provisions. Several new loopholes have been added to the bill which I believe should be eliminated.

III. NEW LOOPHOLES ADDED BY THE BILL WHICH SHOULD BE ELIMINATED

The bill before us is long. It contains 131 different sections. Of these, 52 sections relate to changes in rates of individual, corporation, and excise taxes. The remaining 79 sections are technically worded provisions which cannot be understood without diligent and intensive study. I do not claim to understand all of them, nor do I intend to bore Senators with all of the minutiae. However, I do want to state that behind the facade of legal language a number of important loopholes have been opened. By the way, we stayed up until 4 o'clock in the morning looking at the legal language. These new loopholes cannot be tolerated; and I propose to join my colleagues in offering amendments to eliminate them from the bill.

The loophole-opening provisions are of two kinds. First, there are several which expand the scope of two important loopholes already in the present tax laws, namely, the capital gains provisions and percentage depletion. As I have already indicated, these provisions are not of the "peanut" variety. They cost the taxpayers hundreds of millions of dollars.

Unless they are eliminated, taxpayers who do not now benefit from them can argue on the basis of equity that they are being discriminated against or are put in a bad competitive position relative to those who are benefited. The danger of extending these loopholes is that the structure of the income and excess profits taxes becomes punched full of holes through which the chosen few can avoid the high tax rates while the many who work on the farms or in the factories will have to pay for the cost of running the Government.

The second type of provision which is objectionable is the variety which is obviously designed to give relief to individual taxpayers. In the 2,600 pages of testimony taken by the Senate Finance Committee on this bill we find hundreds of requests that these taxes be reduced. Everybody's taxes are high and as I have said, the load is admittedly burdensome. But there is no justification for pinpointing relief tailored to one taxpayer. The relief accorded to individual firms in this bill under the excess-profits tax will exempt many corporations from taxes on profits which this Congress, at the insistence of the people, defined as excess profits. The fact that a firm is required to pay a large excess-profits tax is usually evidence that that firm is earning exorbitant profits, not that the law is defective. The relief provisions in the original law are overly generous and we should be now engaged in tightening them rather than extending them, except if it is evidently and patently clear that a grave injustice has been enacted in the over-all law.

The provisions which are objectionable can be spotted easily in the bill even

by the laymen. Where a section refers to capital gains, percentage depletion or to exemptions, the likelihood is that one taxpayer or a small group of taxpayers is being allowed to convert ordinary income into capital gains, or is being permitted a double deduction for depletion, or is being exempt from his fair share of the tax load. We cannot afford to indulge in this practice. Experience in foreign countries provides ample evidence that a tax system will quickly become discredited and wholesale non-compliance and tax evasion will be invited.

As I have stated repeatedly, we cannot afford to do so. It is the road to inflation and national bankruptcy.

A. CAPITAL GAINS FOR COAL ROYALTIES

One example of the special relief provisions is section 325 of the bill. The demands of the private owners of one of the country's natural resources was made in the name of the divine right of capital gains, and this combination, of course, was irresistible—even in the House of Representatives. The result was a provision which would somewhat lighten the tax burden of some of our people—not of wage earners, to be sure; not even of those who direct the development of the resource in question. In this case the beneficiaries would be the recipients of royalties. The provision is one to tax at capital gains rates royalties received on coal production.

Why should that be so? I do not know.

In recommending this provision, the Ways and Means Committee offered the explanation that timber owners now have capital gain treatment on their cutting contracts, and have had since 1943. How could one justify denying to coal what is accepted in the case of timber?

In other words, since 1943 the timber owners have had that benefit. Now we say, "This is bad, of course, but why deny the same privilege to coal-mine owners?" Of course everyone I see in this Chamber pays an income tax.

Mr. LONG. Mr. President, will the Senator yield?

Mr. HUMPHREY. Yes.

Mr. LONG. If we are to allow those who receive coal royalties to pay at the capital-gain rate, it would seem to be discriminatory to leave out the oil people. Last year a proposal was made to include them in the tax bill. That provision did not become law. It was felt that it would have been discriminatory to the coal people.

Mr. HUMPHREY. That was the feature known as the "in oil payments." In other words, there is a certain amount of production and it is sold at a fixed and set rate. It is declared on the capital-gains basis. If we are going to do it for coal, we should do it for other items as well. There is no reason why we should not be consistent.

This, of course, is always the argument made on behalf of one special interest from a privilege granted to another. Instead of demanding that the hole be closed, the cry is to open it a little wider so we can get through, too. It was opened for timber partly because timber

gets no percentage depletion. Now that is forgotten, and the only thought is not to discriminate in favor of timber and against coal.

In some States there are a great many slot machines. The argument is made: "If we do not have them here they will go to a bordering State."

The bordering State says, "If we do not have them here, they will go to the next State."

Very soon a practice upon which we frown becomes a universal practice because it sets a pattern in a community. I do not say that this is an illegal act, because we have legalized it. It may be immoral, but it is not illegal. In this instance we are attempting to say that we can tax these things at the capital-gains rate. Soon we will be asked to do the same thing on behalf of other mineral interests and oil interests. The Senator from Louisiana referred to the "in oil" feature, which was discussed last year.

If this measure passes, next year we will be asked to do the same for other mineral interests, particularly oil and gas, and then our defenses against the in-oil payment provisions, thrown out in conference last year, will be down, and an entire major segment of our economy will have squeezed itself into the capital-gain area. In truth, if this measure is to pass for coal, how can any of the other minerals—oil, gas, iron, or limestone—be denied it, and how can writers, composers, and inventors any longer be taxed at ordinary rates?

I wish I could say that our own Finance Committee had alerted us to this problem. On the contrary, it not only approved the House action; it extended it. So that no royalty owners will be denied the benefit, it virtually knocked out the 6-month holding period requirement by permitting the holding period to be computed by reference to the date the timber or mineral is cut or mined, rather than to the date of the cutting or mining contract. There is a little distinction here. It is possible to make a contract at a considerable period of time before the product is cut or mined.

This is an example of the type of relief provision which cannot be tolerated in these times.

B. MINE DEVELOPMENT AND EXPLORATION EXPENDITURES

Mr. President, I have a substantial section of my remarks devoted to this particular point. I ask that my remarks on the subject be printed in the body of the RECORD at this point.

There being no objection, the matter referred to was ordered to be printed in the RECORD, as follows:

B. MINE DEVELOPMENT AND EXPLORATION EXPENDITURES

Existing law permits mining companies to capitalize expenditures for development and exploration purposes, and write them off against income as the mineral is produced and sold. After the development stage is passed, further development expenditures are similarly "spread" and charged against subsequent, benefited production, but these latter expenditures are not deemed to be capitalized, and therefore are not charged to the cost depletion account. Therefore, they

can be deducted even if the company elects to use percentage instead of cost depletion. Now, the companies want to treat preproduction development and exploration expenditures in the same way, so that for them, as for the later expenditures, percentage depletion becomes not a substitute allowance, but substantially a free and clear subsidy on top of most of the cost deductions for which cost depletion is traditionally allowable.

The House agreed that this should be permitted for development expenditures and the Finance Committee has both approved this proposal (sec. 309) and a further proposal to give an option as to when the deduction for development expenditures should be taken. It also added a deduction for exploration expenditures up to \$75,000 (sec. 341).

These actions raise two questions. One is provoked by the fact that the ordinary business concern is strictly supervised as to the year in which its depreciation deductions and its expense deductions may be taken. Perhaps this supervision is more strict than it should be, but if it did not exist to some extent, taxpayers would acquire a great control over the degree to which increases in tax rates would be effective against them on the date enacted. But it is hard to see why a company which puts its money into plants and machinery should be subjected to a more rigid tax amortization system than mining companies.

But even if this discrimination in favor of the mining companies is justified, the double deduction is not. The importance of the proposal really lies in the "expensing" of costs as a means of enhancing the value of the percentage depletion allowance.

It is true that the deduction for development costs would give to mining companies only what was long ago given to oil and gas concerns. But that criterion would justify amendments which would leave little in the way of an income base for the tax rates to apply to.

It may be argued that these provisions are necessary to give the little fellow a break and to provide him with additional incentives to explore and develop mines. However, no limitation on the double deduction for development expenses was placed in the bill. The double deduction for exploration expenses is limited to \$75,000. If these provisions are not entirely eliminated, I shall move to place the \$75,000 limitation on development expenses as well as exploration expenses.

C. EXTENSION OF PERCENTAGE DEPLETION

Mr. HUMPHREY. Mr. President, I discussed the percentage depletion feature at length with the Senator from Wyoming [Mr. HUNT], the Senator from Oklahoma [Mr. MONRONEY] and the Senator from Louisiana [Mr. LONG]. I believe we have gone into it thoroughly, and I do not see any necessity for a further statement on it, except to point out that in section 319 of the pending bill, besides raising the rate of several minerals already in the law, it is proposed to add 25 new minerals—25 more, Mr. President. If there is any substance in a natural state which has been omitted, I cannot think of it. The section refers to sand, gravel, slate, stone, brick and tile clay, shale, oyster shell, clam shell, and granite.

Oyster shells and clam shells and gravel too. One does not have to go around exploring for gravel. In my State all that is necessary to do is to stub one's toe and he will come across gravel. It is no great feat to do so. One does not have to be a mining engineer to find a sand pit. All one needs to do is to go

along a river bank, and it is there. This percentage depletion goes on forever. It is practically the only eternally living thing on earth. So long as there is any sand left we will have that depletion.

Mr. DOUGLAS. Mr. President, will the Senator yield?

Mr. HUMPHREY. Yes.

Mr. DOUGLAS. It also applies to pumice, sporia, and slate.

Mr. HUMPHREY. And shale.

Mr. DOUGLAS. Oyster shell, clam shell, granite, marble, sodium chloride, and, if from brine wells, calcium chloride, magnesium chloride, potassium chloride, and bromine, 5 percent.

Mr. HUMPHREY. That is in the bill.

Mr. DOUGLAS. And in the case of coal, asbestos, brucite, dolomite, magnesite, wollastonite, borax, fuller's earth, tripoli, refractory and fire clay, quartzite, perlite, diatomaceous earth, metallurgical grade limestone, and chemical grade limestone, 10 percent?

Mr. HUMPHREY. That is correct.

Mr. DOUGLAS. And in the case of metal mines, apatite, bauxite, fluor spar, flake graphite, vermiculite, beryl, feldspar, mica, talc—including pyrophyllite—lepidolite, spodumene, barite, ball clay, sagger clay, china clay, phosphate rock, rock asphalt, trona, bentonite, gilsonite, thenardite, and potash, 15 percent?

Mr. HUMPHREY. That is correct.

Mr. DOUGLAS. Those are extraordinary minerals.

Mr. HUMPHREY. Let me say that the contention that the new minerals which have been added in this version of the bill are competitive with some which already are enjoying the privilege is a contention which reminds me somewhat of the allegation that after one tells a lie, the only way to cover it up is to tell another lie, and then another one, and then another one, and thus keep getting deeper and deeper into the complication and the trouble. So, in the present case, apparently it is felt that the only way to proceed is to add others.

I am not prepared to deny that there are some competitive advantages; but I believe that if this process is continued, eventually it will include every chemical and compound known to the laboratories.

As I have said, the latest excuse which is given is that it is necessary to stimulate exploration for and development of minerals of strategic importance. I agree that that sounds fine for oil and gas. We have argued that matter at length, and I do not believe anyone can accurately deny that for oil and gas there is a real national security problem. However, what such an arrangement means to our national security in the case of sand, gravel, stone, and oyster shells, I do not know.

Mr. DOUGLAS. To say nothing of clam shells?

Mr. HUMPHREY. Yes, and including clam shells. [Laughter.]

In the case of coal, I do not know that I should say that everyone knows the arrangement is nonsense; in fact I delete that word. However, at least everyone knows that there is a variance of opinion about it. So the argument is turned upside down, and coal is said

to be a depressed industry, and it is said that the coal industry requires the stimulus of the depletion subsidy. Mr. President, if subsidization is the real justification of the privilege, we could not only eliminate half of the minerals entitled to it, but we could take the program entirely out of the tax laws, and could put it where an administrator could handle it so as to get the maximum results for the cost to the Government. I am sure that it will not be difficult to find an administrator who could stimulate a great deal of exploration with a fund of three-quarters of a billion to a billion dollars a year. In that case, no doubt there would be holes all over the ground.

Mr. President, percentage depletion is already overdone in the present law. It should not be extended.

I now ask unanimous consent that the pages of my prepared remarks which pertain to percentage depletion be printed at this point in the RECORD, as a part of my remarks.

There being no objection, the matter referred to was ordered to be printed in the RECORD, as follows:

EXTENSION OF PERCENTAGE DEPLETION

Over and over again both President Roosevelt and President Truman have directed attention at percentage depletion as the most costly and most unjustifiable tax subsidy in the revenue code. Over and over again the Congress has responded by enlarging the privilege, making it more costly and less justifiable than it was before. Once percentage depletion was the prerogative of oil and gas, supposedly an allowance to cover the hazards of exploration and drilling. Before the war it was extended to coal, sulfur, and the metallic minerals. During the war it was extended to many nonmetallics. In section 319 of the present bill, besides raising the rate on several minerals already in the law, it is proposed to add about 25 new minerals. If there is any substance found in a natural state which has been omitted from this most recent list, I cannot think of it. If there is one, I cannot conceive of why it should be denied a privilege which is to be granted sand, gravel, stone, clay, oyster and clam shell, and salt.

Let me read a list of the new minerals to which percentage depletion is applicable. Both section 319 of the committee's bill and section 304 of the House bill set up a new group of minerals to which percentage depletion is available at the rate of 5 percent. Both bills extend this rate of sand, gravel, slate, stone (including pumice and scoria), brick and tile clay, shale, oyster shell, clam shell, granite, and marble.

In addition, the committee added to this category entitled to the 5-percent rate: sodium chloride, and, if from brine wells, calcium chloride, magnesium chloride, potassium chloride, and bromine.

The House bill also included asbestos at the new 5-percent rate. The Senate committee allowed asbestos a 10-percent rate. Both bills increase coal from its present 5-percent rate to 10 percent.

The House bill added to the list of non-metallic minerals, to which percentage depletion is available at a 15-percent rate, borax, fuller's earth, tripoli, refractory and fire clay, quartzite, perlite, diatomaceous earth, and metallurgical and chemical grade limestones. The committee's bill, on the other hand, provides that these items added by the House are to receive percentage depletion at the same 10-percent rate accorded coal and asbestos. In addition to these items, the committee added a 10-percent rate for wollastonite, which is important as an insulating and

fireproofing material and thus competitive with other items presently accorded similar treatment, and the magnesium compounds magnesite, dolomite, and brucite.

The committee's bill adds to the non-metallic minerals presently receiving 15-percent depletion, apatite. This material is closely related to feldspar, which already receives a 15-percent depletion.

Again, as before, the contention is that these new minerals are all competitive with some already enjoying the privilege. I am not prepared to confirm or deny this assertion. I do know that it is a contention which must eventually lead, if accepted, to percentage depletion for every element and compound known to the chemical laboratory.

As I have indicated, the annual revenue cost of percentage depletion for oil and gas alone has been estimated at three-quarters of a billion. The increases and additions in this bill would cost another \$77,000,000 each year. Those figures do not account for the cost as to sulfur, coal, the metals, and the nonmetallics which are already in the law. The changes recommended by the Finance Committee altered the result of the House action but little. Another half-dozen minerals, more or less, would be added, but the rates on a few added by the House would be somewhat reduced.

Again and again, various excuses are made for percentage depletion, and as soon as one is run down and exposed, another has been prepared. If this debate could lead to a full understanding of the percentage depletion issue, this body would be amply rewarded for the entire time devoted to the bill, but I will assure you that much time would be required.

The latest excuse is the necessity of stimulating exploration for and development of minerals of strategic importance. This sounds fine for oil and gas. What it means for sand, gravel, stone, and oyster shells, I do not know. For coal, everybody knows that it is nonsense, so the argument is turned upside down and coal is said to be a depressed industry, and requires the stimulus of the depletion subsidy. If subsidization is the real justification of the privilege, we could not only eliminate half of those minerals entitled to it—we could take the program entirely out of the tax laws and put it where an administrator could handle it so as to get the maximum results for the cost to the Government. I am sure that it won't be difficult to find an administrator who could stimulate a great deal of exploration with a fund of three-quarters of a billion to a billion a year.

Percentage depletion is already overdone in present law. It should not be extended.

D. FAMILY PARTNERSHIPS

Mr. HUMPHREY. Mr. President, now let me move on to the subject of family partnerships and the special tax provisions in connection with them.

A special provision for family partnerships was adopted by the Senate last year, including a clause which made it retroactive to 1939; but it fell by the wayside in the conference.

Mr. President, I wish to say to the Senator who now is presiding over the Senate that we had quite a struggle about family partnerships. The Senator from Illinois [Mr. DOUGLAS] remembers it, and so does the Senator from Louisiana [Mr. LONG]; and the Senator from Montana [Mr. MURRAY] was present part of the time when we discussed these matters. We lost our fight on the floor; but in conference the House conferees agreed to do away with the family partnership provisions which were inserted in the bill as passed by the Senate.

Now, Mr. President, the family partnership provision is before us again, as a part of the pending bill. The House bill includes the provision, but makes it effective only for the future. The House bill says, in effect, "Family partnerships are O. K. from now on." On the other hand, the Senate committee's version of the bill says, in effect, "But also, going back to 1939, the retroactive feature will be included."

That proposal is made because a number of cases are being adjudicated or settled.

The bill allows a father who runs a business to reduce his taxes by making to each of his children gifts of an interest in his business. The children need not work. An infant 6 months or 6 days old can be a partner. If the father wants to be technical, he can create a trust for his children, and can make himself trustee, and in that capacity he can become his own partner. We went through all this matter by the hour, as we recall, last year.

Mr. DOUGLAS. Mr. President, will the Senator yield?

Mr. HUMPHREY. I yield.

Mr. DOUGLAS. The evidence brought forward last year showed that in a number of cases a father who was the head of a business firm made a new-born baby a partner in the business, which in many cases turned out to be a very complicated one. In one instance an infant was made a partner in an accounting firm. Is it the opinion of the Senator from Minnesota that in such cases the father and the new-born baby were really working partners, and that the new-born baby was of great assistance to his parent in connection with the operation of that complicated and intricate business?

Mr. HUMPHREY. I would say that the benefit obtained from the new-born baby, in connection with the complicated business, was the benefit which came from the lifting of the morale of the father by his looking at the picture of the little bundle from heaven and thus finding his spirits lifted, particularly toward the end of the day.

Mr. President, I do not say there should not be legitimate family partnerships, for when real work is done by both the partners who are associated in such a relationship, certainly it is worthy. However, there have been a number of cases in which the possibility of making such an arrangement has been abused. It is to such cases that we are directing our attention.

Let me give some examples which I believe will be of interest. During World War II there were a great number of persons who tried to succeed in tax avoidance by means of such an arrangement, at a time when taxes were also rather high for the same reason the taxes are high now, namely, because we were trying to pay for our defense by taxing the people according to their ability to pay. Our experience during World War II was that the number of family partnerships increased by leaps and bounds, with very great rapidity. Why did that occur? Well, Mr. President, it was obvious that if a businessman

could divide the entire income from his business with Junior, and possibly with Junior No. 2 and Junior No. 3, and possibly also with Sally or Sally, Jr., and Sally No. 2 and Sally No. 3, that business man simply would not have to pay as large a tax as he would have to pay if he did not make such an arrangement.

I submit that it is in this field that the Bureau of Internal Revenue is having its most difficult time, just as during World War II many "quickie" outfits come into existence and attempted to "make a fast buck," and did not wish to pay the proper income tax on their earnings.

I submit that the honest citizen who permits such things to occur is merely permitting himself to be taxed exorbitantly, in order to take care of a comparatively small number of persons who receive special privileges.

Mr. DOUGLAS. Mr. President, will the Senator yield further?

Mr. HUMPHREY. I yield.

Mr. DOUGLAS. Is it the understanding of the Senator from Minnesota that between 1934 and 1945 the number of family partnership tax returns increased from 291,000 to 629,000?

Mr. HUMPHREY. The figures given by the Senator from Illinois are absolutely correct, and I think that point should be emphasized. In other words, during that period the number of family partnership tax returns increased by almost 2½ times, I believe.

Mr. DOUGLAS. At any rate, their number increased by something more than double the former number.

Is it also the understanding of the Senator from Minnesota that a large part of that increase was due to the development of family partnerships, which development occurred in many cases in order to make it possible to split the income, and thus to avoid the application of the heavier tax rates?

Mr. HUMPHREY. I think there is no question but that that is the reason.

Mr. DOUGLAS. At least, it is a reason.

Mr. HUMPHREY. Yes; at least it is a reason.

As you know, Mr. President, every time a tax is raised, it is necessary to make sure that there is no way by which the increased tax rate can be escaped. In that connection, the situation is somewhat like that in the liquor industry, as to which we are told that if the tax on liquor is raised to a very high level, if the development of the moonshine business is not prevented, all the difficulties of the old prohibition days will return.

In this case the change in the tax rate is applied to legitimate businesses; but if we do not provide for the enforcement which should be provided and if we do not provide for plugging the loopholes, we shall find that there are revenue runners. Believe me, Mr. President, they are revenue runners, and they have a capital gains "still." A person who has such a capital gains "still" is not making pot liquor, but he is making something much better than that; he is making dollars from a capital-gains provision and from a dozen other little twists and turns.

After all, in connection with these matters, we are dealing with human beings, and we have to remember how some human beings act at times.

Mr. President, I have prepared a considerable amount of factual material in regard to family partnerships. Inasmuch as we shall bring up an amendment on that subject, I believe there is no need for me to repeat the material at this point.

I merely wish to point out that I ask my colleagues to look over the material I have prepared on this subject, and I ask them to analyze it on the basis of the testimony which is printed in the hearings and the records which are before us at this time. I ask my colleagues also to examine the debate we had last year on this matter, and to consider the fact that last year the family partnership "deal" was not included in the conference report.

I ask my colleagues why there should be retroactivity to 1939 in connection with family partnership provisions and why we should permit the tax benefits proposed for family partnerships to extend back to 1939, when the record reveals that during World War II the number of family partnerships increased to the extent of 200 percent or more.

Why should we have family partnerships made, running back to 1939, when the record reveals that family partnerships during World War II increased more than 200 percent? Why was there such an increase? Because profits were high, taxes were high, and some people decided that the family partnership device might be one of the ways of avoiding their fair share of the tax burden.

I protest that kind of action, Mr. President, and I want to see nothing in the new tax law, containing some of the highest tax rates in our history, which will offer an incentive to more people to avoid their share of the tax burden and which will place a greater burden of enforcement upon our Government. I think we owe it to ourselves and to the country to plug that loophole.

Mr. President, in regard to the matter of family partnership I have a considerable amount of material. I should like to have my prepared material printed in the RECORD. I ask unanimous consent that this material be printed in the RECORD as a part of my remarks.

The PRESIDING OFFICER. Is there objection?

There being no objection, the matter referred to was ordered to be printed in the RECORD, as follows:

FAMILY PARTNERSHIPS

A special provision for family partnerships was adopted by the Senate last year with a clause which made it retroactive back to 1939, but it fell by the wayside in the conference. It is back again in this bill in section 339. The House bill includes the provision, but makes it effective only for the future. The bill as reported to the Senate was amended to include last year's retroactive feature.

The bill allows a father who runs a business to reduce his taxes by making gifts to each of his children of an interest in his business. The children need not work. An infant 6 months or 6 days old can be a part-

ner. If the father wants to be technical, he can create a trust for his children, make himself trustee, and in that capacity become his own partner.

Ordinarily a man would not seriously consider making his infant children partners in his business or becoming an imaginary partner with himself as trustee. For the past 10 years, however, our country has lived in mortal peril. To meet that peril Congress has reluctantly felt obliged to raise everybody's taxes. We have tried generally to impose those increased taxes on the principal of each income producer's ability to pay. Persons making a larger amount of money have been called on to pay taxes at higher rates than those who make less.

I believe that many of the family partnerships formed during World War II were motivated and used primarily, if not entirely, by high-bracket taxpayers—many of whose incomes are directly or indirectly multiplied by war-connected inflation—to escape paying what the Congress has decided is a fair share of the tax burden to be borne by people receiving a certain amount of income. Most of the family partnerships which would be sanctioned by this bill would be motivated in the same way.

If a man's business earns a net income of \$100,000, he should pay the tax at the rates the Congress has prescribed for \$100,000 incomes. If he wants to give some of his money to his children, or set it aside in trust for their benefit, that is fine. That is what a man should do. But first he ought to pay his taxes on money that he earns and continues to control. He should not be allowed to take his two children into partnership with him, and pay a reduced tax on part of his income as if the children or the children's capital earned a half or a third of his income.

Without income splitting a married man with two children earning \$100,000 net would pay an income tax of \$65,232. As the law is now his tax is \$51,912. By the fiction of income splitting, he saves in taxes \$13,320—almost the amount of a Senator's entire salary.

Now, let our \$100,000 income man take advantage of the new bill and form a partnership with his two babies. Let us assume that he keeps one-half of the income himself because he does all the work, and that he gives each of his children a one-quarter interest in his business. Then the taxable income of the husband and wife is artificially reduced to \$50,000. The income of the child partners is assumed to be \$25,000. The family tax bill is reduced still further. The husband-father files a joint return with his wife and pays a tax of \$19,592. Each baby has a tax paid for him of \$9,796. The family tax bill on exactly the same income of \$100,000 earned in exactly the same way as before is \$39,184. Our generosity by first giving split income in 1948 and now by legalizing family partnerships would save our \$100,000 businessman \$26,048 in taxes.

If the increased rates become law, the tax saving from split income and family partnerships will be even greater—in dollars and percentage-wise. I don't see how anybody running a business as an individual could afford not to take advantage of the loophole here proposed. I wish that the times were such that we could reduce everybody's taxes that much. I see no reason why a man in a position to take his children into his partnership should be singled out for specially privileged treatment.

That is what the House bill does. That is bad enough if only for the future. But there are a lot of people who tried this tax-avoidance scheme during World War II when taxes were also pretty high for the same reason they are now—because we were trying to pay for our defense by taxing people according

to their ability to pay. This bill would fix those World War II cases. The bill goes back to 1939.

During all that time many businessmen and high-bracket taxpayers succumbed to the suggestion of smart lawyers and accountants, or figured out for themselves, that they might avoid a lot of taxes by taking their wives and children into so-called partnership. To get the tax advantage under the law as it is now and was then, they had to claim that the wives and children were real partners in the legal sense that they intended to work together and invest their money together as bona fide partners.

Those who formed valid partnerships in a bona fide way have been allowed to split their incomes by the Bureau of Internal Revenue and the courts. Many had a little, but not enough, evidence that their wives or children contributed money of their own which didn't come straight from papa, or who could prove that they did some work for the income they claimed was theirs for tax purposes. They have generally settled their cases and gotten some tax advantage—not all they claimed.

But there are obviously many cases in which nothing happened except that the husband purported to make a gift to his wife and children. These cases the Government refused to settle. The people involved in these classes of cases are trying to make the new loophole which the House has opened for the future retroactive to minor cases all the way back to 1939.

There was a time when the Congress was making a studious effort to close loopholes—to make people pay taxes on their real income at the rates the Congress purported to fix.

An alarming tendency is developing to open loopholes for the future principally by letting people split incomes and enlarging and extending the privilege of paying capital gain rates on half of the income a person gets from certain kinds of transactions. It is bad enough to create a loophole by act of Congress. This partnership provision reaches a new high—or low. It opens a loophole—of dubious merit—for the future, retroactively extending that loophole back 13 years into the past.

I recommend that the Senate delete the family partnership provision. The Treasury estimates that it will cost \$100,000,000 annually in the future and \$200,000,000 for past refunds. We cannot afford to give tax handouts like these. I strenuously urge that the Senate refuse to enact a bill for the private and unwarranted relief of unnamed and unnumbered individuals who formed family partnerships in the past 13 years for tax avoidance purposes.

If the Bureau of Internal Revenue has taken tax money from some of the people—for example, where soldiers were made partners and then went away to war—perhaps a private bill for their relief might be in order. Even if some of these people have lost their cases in court, they can be helped by a private bill. I suspect that some of the most deserving cases involve people who believed in the bona fide nature of their partnership, took their cases to court and lost. This bill would give them no relief. The measure before the Senate is a comprehensive revenue bill—it is a war measure. The procedures and safeguards which we have established for private bills have not been followed where we have focused on the complex and difficult fiscal and legal problems involved in a revenue measure.

Let us not enact private relief measures for high bracket taxpayers in a bill like this.

On this provision I should like to obtain some information from the distinguished members of the committee.

1. Would it be of any benefit to taxpayers under \$5,000? If so, how much?

2. Is it true that the principal support for this provision comes from tax lawyers who gave bad advice to clients that they could set up tax avoidance schemes to duck the higher income tax rates during World War II and then had them upset by the courts?

3. Does it appear reasonable that at a time when we are raising taxes for the many to meet the costs of an emergency, we should enact a provision which loses revenue for the benefit of a few?

Mr. HUMPHREY. Mr. President, I desire to move along. I think we are going to keep on schedule.

The next subject I desire to discuss is under the heading:

E. TAX-FREE REDEMPTION OF STOCK TO PAY ESTATE TAX

This is another complicated part of the bill. It is very interesting to see how some of these things work. In the Revenue Act of 1950 the House proposed to permit the tax-free redemption of the stock of a closely held corporation where the proceeds of the redemption were needed to pay the estate tax of a stockholder. The House bill limited the privilege of tax-free redemption to cases where stock of the closely held corporation—and that is the family type of corporation, to identify it after a sort—constituted 70 percent of the decedent's taxable estate.

The Finance Committee amended the House bill to delete the 70-percent limitation therein. We debated the provision on the floor last year. Thereafter the conference committee limited the provision to those cases where stock of a closely held corporation constituted 50 percent of a decedent's estate.

The Finance Committee has now come forward with a proposal in section 339 of this bill to reduce the 50-percent limitation to a 25-percent limitation.

As we pointed out in last year's debate, the problem for which the tax-free redemption feature was enacted would not arise in cases where a closely held corporation regularly distributed its profits in dividends, instead of constantly accumulating those profits.

I have some personal knowledge of this particular problem. At this very moment I am speaking against my personal interests, as many others here speak against their personal interests. The reason why these closely held corporations accumulated the profits was usually in order to protect the stockholders from the ordinary income tax imposed on dividends.

This purposeful failure to declare dividends means that when the principal owner of a closely held corporation dies, he has no cash outside of his corporation with which his estate can pay the estate tax. In other words, all the profits are simply maintained inside the corporate structure. Therefore, there is nothing on the outside with which the beneficiaries can pay the estate taxes. The only way the estate can withdraw the cash necessary to pay the estate tax is by liquidating a portion of the stockholder's interest in his corporation, and a partial liquidation of a stockholder's interest is taxed, as it should be, as a dividend at ordinary income-tax rates.

Stockholders of closed corporations, having put themselves into this jam, came to Congress last year, and are back this year, to get relief from it.

There may be some justification for tax-free redemption where an individual stockholder has all of his property tied up in a single corporation. I want to make it quite clear that where an individual has all of his property tied up in a single corporation, his estate has nothing else to do but turn to that one corporation. There is some, but less, justification for allowing tax-free redemption where the stockholder of a closely held corporation has half of his property tied up in a closed corporation. I see no justification for giving tax-free redemption relief, which merely means being able to sell some of one's stock tax-free, to the estates of those who have only one-fourth of their property tied up in a closely-held corporation. It means that three-fourths of their assets, three-fourths of their resources, are some place else, with one one-fourth in this closely-held corporation.

A man may be a member of a family-held corporation; he has one-fourth of the stock; he gets three-fourths of his revenue or income from other properties. When the estate is being liquidated, and it has to pay the estate tax, why in the name of common sense should it be able to buy the stocks of that closely-held corporation tax-free, when, in fact, those stocks are the result of accumulated dividends, which were unpaid earlier for one of two reasons, either to increase the capital, or to see that the stockholder did not have to pay the earned-income rate on dividends? I submit that the Senate should reject the Senate Finance Committee's recommendation, and leave this qualifying percentage out.

I should like to ask the majority leader a question at this point. Is the majority leader planning to have the Senate remain in session through the consideration of the bill, or can we come to an agreement to recess? I should like to complete my remarks. I have worked very hard on this subject, to be very frank, and my colleagues have worked with me. There are several of my colleagues who have spent night after night at my office assembling this material. I have in a way been delegated to present it as our argument. I wonder whether we could come to an agreement to recess, and I could have the right to the floor at 10 o'clock in the morning, without a quorum.

Mr. MCFARLAND. I think we ought to continue in session a little later than this today. We had not planned to recess quite so early.

Mr. DOUGLAS. I wonder whether the majority leader would give us an idea as to his intention with respect to how long he wants us to continue.

Mr. MCFARLAND. The Senator from Georgia is in charge of the bill and I had planned to leave the time pretty well up to him. I think the Senator from Oklahoma is now temporarily the floor manager for the committee, and as soon as he comes back to the Senate Chamber I shall consult with him.

Mr. DOUGLAS. What is really happening is that the Senator from Minnesota is advocating the program of the President in respect to the subject he is discussing, and I should not like to have him kept on his feet unduly and harassed when he is making such an extremely able speech. So I should like to see the Senate recess in the not-too-distant future, in order that we might then have the benefit of the development of the subject by the Senator from Minnesota. I think he has been going too rapidly, as a matter of fact, in the last few minutes, and has deprived us of much very valuable material. Those who are defending the program of the President in this case hope very much that the Senator will not be kept on his feet unduly, but that he may have a chance to rest and to resume tomorrow.

Mr. McFARLAND. It is not my purpose to keep any Senator on his feet unduly. I do believe that we ought to make some progress with this important legislation. At least we should complete one speech a day, and for that reason I hoped we would run a little later than this.

Mr. DOUGLAS. The term "little" is a somewhat indefinite one.

Mr. McFARLAND. May I ask the distinguished Senator from Minnesota how long it would take him to complete his speech?

Mr. HUMPHREY. It depends upon what the interruptions are. I may say I got through the first two pages of my remarks in 1 hour today, because I had no more than opened my mouth on the statement when some Senator started interruptions. We had a pretty good colloquy, which I think is very desirable, but I would say that, if uninterrupted, I could conclude within about an hour, possibly.

Mr. DOUGLAS. Mr. President, may I say I think the Senator is developing so many valuable points that I am quite certain there will be some colloquy from the floor.

Mr. HOLLAND. Mr. President, will the Senator from Minnesota yield?

Mr. HUMPHREY. I am happy to yield to the Senator from Florida.

Mr. HOLLAND. I hope the majority leader will be gracious enough to cooperate with the distinguished Senator from Minnesota. Having at times spoken for several hours myself in other causes, I know that sometimes one becomes weary upon his feet, and I hope that the precedent established in the Senate of showing a little generosity and a little bit of graciousness may be extended on other occasions and to other Senators upon this floor, who speak for much shorter periods of time than the time which the Senator from Minnesota has so ably consumed today.

Let me say that I do not think the Senator from Minnesota has wasted a minute. I do not believe he has spoken impertinently a single sentence. At least, all the time I have been on the floor he has addressed himself entirely to the subject matter of the debate. So far as the Senator from Florida is concerned, he hopes the other Members of the Senate will be gracious and understanding, and as good as is the orange

juice which the Senator from Minnesota has so thoughtfully kept by his side during his address and which, no doubt, has contributed to his ability to hold the floor for 8 hours. It seems to the Senator from Florida that we must recognize that there is a limit to human endurance, even when citrus juice is used, and I hope that my friends will be sufficiently thoughtful in their attitudes to show a little grace and generosity to my friend from Minnesota.

I close on the note that this will set a precedent in this kind of a sustained address which for the first time I have heard made by the distinguished Senator from Minnesota.

Mr. HUMPHREY. Mr. President, first of all I want to raise my glass in a toast to my good friend from Florida. The glass contains marvelous fruit juice from the great State of Florida. I appreciate the statement of the Senator from Florida when he said I tried to keep to the issue. This has not been the most easy and comfortable situation that the Senator from Minnesota has ever enjoyed or experienced, because while we were told the bill would be with us on Wednesday, I got my first copy of it at 1 o'clock yesterday afternoon, and I had a long day on the floor yesterday. A good deal of work had gone into the preparation of amendments. The address which I have been giving has been written and rewritten in terms of sections which had to be identified from the bill, until 4 a. m. this morning, with a staff of several persons.

I arrived here feeling that if we did not conduct a debate, the bill would probably go through. We did not have time to get our amendments completely ready and will not have them submitted until tomorrow. I think the Senator from Illinois feels the same way about it. We need time to get Senators to look into the provisions of the bill. I have great confidence in the Finance Committee, but when we are increasing taxes and providing \$5,000,000,000 in additional revenue it seems to me that every Senator should know what is in the bill.

Mr. KERR. Mr. President, will the Senator yield?

Mr. HUMPHREY. I yield.

Mr. KERR. The Senator is aware of the fact that he and every other Senator has been welcome to attend any hearings which the Finance Committee have held.

Mr. HUMPHREY. The Senator from Oklahoma is aware that every Member of this body is besieged with hearings. The Senator from Alabama [Mr. HILL] told me he wanted to hear my speech, but had to attend one hearing after another. It is not always possible to attend hearings of a committee of which a Senator is not a member, because he has his own burdens and his own responsibilities in connection with his own committees.

Mr. KERR. If the bill is not going to be considered fully, it might as well be brought to the floor without consideration by the committee, and the committee could save a great deal of time.

Mr. HUMPHREY. No. I think we all commend the committee for its very serious and sincere efforts. I think the Senator would agree with me that a bill of

this magnitude might lie idle for 48 hours or more to give Senators a chance to go through its provisions and to study the committee report.

Mr. President, I think I shall carry on, unless the majority leader wants to make a request for some other arrangement—

Mr. DOUGLAS. I hope the Senator will continue and that we shall not permit this tax bill to be rammed down our throats without adequate debate to clarify the many basic issues involved.

Mr. McFARLAND. Mr. President, will the Senator yield?

Mr. HUMPHREY. I yield.

Mr. McFARLAND. Mr. President, the statement just made by the Senator from Illinois is the most unfair statement that I ever heard him make. There is no effort being made here to ram anything down anyone's throat. It ill behooves the Senator from Illinois to make such a statement, because if he reads the RECORD he knows it was announced several days ago that the Senate would not hold night sessions during the consideration of the tax bill, and instead we would begin daily sessions at 10 o'clock in the morning. Many Senators felt it was important to consider the bill now before us during the daytime when Members are fresher rather than in the evening. It has been announced that the Senate would try to recess at a reasonable hour each day this week. Under the circumstances and the known facts, I have never heard the Senator from Illinois make such an unfair statement as that which he has just made.

Mr. KERR. Mr. President, will the Senator yield?

Mr. HUMPHREY. I yield.

Mr. KERR. The Senator from Oklahoma feels that the statement of the Senator from Illinois was very unfair. At the request of the Senator from Oklahoma, the Senate has had quorum calls of periods of time up to 30 minutes, for the convenience of our good friend from Minnesota. The Senator from Oklahoma requested quorum calls for that purpose, and he would be happy to do it again, and other Members would be glad to extend that privilege again, so that every consideration might be given to our distinguished colleague from Minnesota.

I should like him to tell the Senator from Oklahoma if there is any feeling in his mind that there has been any effort on the part of any Senator today to do that which the Senator from Illinois has just referred to.

Mr. HUMPHREY. I want to say to the Senator from Oklahoma that twice today I have personally thanked him for the courtesy he has shown me in asking for quorum calls. I think what we have experienced here is that some of us feel that starting the sessions at 10 o'clock and going on pretty late is something new, and it just hit on the tax bill. I do not think anyone is trying to ram anything down anyone's throat, but I have expressed myself, as the Senator from Illinois has, to the effect that we have felt rushed with inadequate time for thorough preparation.

We have reached the point where we are a little tired. I have spoken to the

distinguished chairman of the Finance Committee and to the ranking minority member of it, and have told them that we had no wish to delay the passage of the bill. I think we would be a great deal better off to recess now and come back at 10 o'clock tomorrow morning. The Senator from Minnesota is not interested in having a quorum call. If Senators do not want to hear what I have to say, I do not want to compel them to come by ringing the bells. I think I can be through by 11 o'clock.

Mr. MCFARLAND. I have no objection to giving the Senator from Minnesota relief by recessing, but I do not appreciate what I heard the Senator from Illinois whisper to the Senator from Minnesota.

Mr. HUMPHREY. I did not hear what he whispered, I am sorry to say.

Mr. MCFARLAND. I heard what he whispered. It is incorrect to suggest there has been any unfairness in the consideration of this bill. No one has been unfair to any Member. If the Senator from Minnesota does not feel like standing on his feet, all he has to do is to tell me so and we will recess at any time. I merely suggested that I had hoped we could finish with at least one speech. However, we will recess now and give the Senator the time he wants in the morning, particularly in view of the fact that he has said that he is covering the views of a number of Senators. We are not trying to ram anything down anyone's throat.

I ask unanimous consent—

Mr. HUMPHREY. Mr. President, I think I have the floor. I think the majority leader has now made a fair proposal. I have spoken to members of the staff of the Senate and to my colleagues, suggesting that we reach some understanding in a few days as to a unanimous-consent request. I do not know what we are all scrapping about. I happen to be one of the younger Members of this body. I think I can take it. If we want to stay until midnight, that is when I start feeling good.

Mr. MCFARLAND. I am glad the Senator is so young. I shall be glad to remain as long as the Senator wants to stay, or I am willing to have the Senate recess now until 10 o'clock tomorrow morning. I had told Senators that we would recess sometime between 6 and 7 o'clock this evening.

Mr. HUMPHREY. Fine.

Mr. MCFARLAND. And I feel that I should carry out that suggestion.

Mr. President, this is the first time during my service in this body anyone has accused me on the floor of the Senate of trying to ram anything down anyone's throat. I may add that any time anyone says that I shall rise in my place and talk about it, regardless of who makes the statement.

Mr. President, I now ask unanimous consent—

Mr. HUMPHREY. Mr. President—

The PRESIDING OFFICER. Does the Senator yield for the purpose of a unanimous-consent request being made?

Mr. HUMPHREY. I want to say in behalf of my colleague, the Senator from Illinois [Mr. DOUGLAS], that he has been most steadfast in his work on the Senate

floor day after day, week after week, and month after month. I also want to say quite frankly that his comments were directed to what he thought was an effort to keep the debate going on. There has been some misunderstanding, and I think that as good Members of this body we can forget that misunderstanding and proceed to consider the request about to be made by the majority leader.

Mr. MCFARLAND. I will say, Mr. President, that no one is more willing to forget a misunderstanding than is the Senator from Arizona.

The PRESIDING OFFICER. Does the Senator from Minnesota yield to the Senator from Arizona?

Mr. HUMPHREY. I surely do yield.

Mr. MCFARLAND. Mr. President, I ask unanimous consent that when the Senate convenes tomorrow morning at 10 o'clock the distinguished Senator from Minnesota may have the floor. And shall I say that the Senator will confine his remarks to an hour, or does he want the time limited?

Mr. HUMPHREY. I will say I may conclude within the hour, if uninterrupted—perhaps longer.

Mr. MCFARLAND. Very well. We will place no limitation on the Senator.

Mr. HUMPHREY. I thank the majority leader.

Mr. MCFARLAND. With that understanding, Mr. President, the Senator from North Dakota wishes to make a few remarks.

Mr. SALTONSTALL. Mr. President, reserving the right to object, and on the part of the minority there will be no objection, I should like to ask the majority leader or the Senator from Minnesota one question. Do I understand that the Senator from Minnesota is willing to proceed on the understanding that we do not have a quorum call at 10 o'clock?

Mr. HUMPHREY. Yes, that is correct.

Mr. MCFARLAND. I will make that a part of the unanimous-consent request.

Mr. HUMPHREY. Mr. President, I yield the floor then.

Mr. KERR. Mr. President, reserving the right to object, do I understand that the request was made on the understanding there would be no quorum call?

Mr. MCFARLAND. Yes, that was a part of the request.

Mr. HUMPHREY. Mr. President, I made the suggestion because it took 45 minutes to get a quorum today. I think we can use 45 minutes to more productive advantage by not having a quorum call tomorrow morning.

The PRESIDING OFFICER. Is there objection to the unanimous-consent request made by the Senator from Arizona? The Chair hears none, and it is so ordered.

CONFIRMATION OF ROUTINE PROMOTIONS IN THE ARMED SERVICES

During the delivery of Mr. HUMPHREY's address,

Mr. STENNIS. Mr. President—

The PRESIDING OFFICER. (Mr. HUNT in the Chair). The Chair recognizes the Senator from Mississippi without the Senator from Minnesota losing his right to the floor.

Mr. STENNIS. Mr. President, from the Committee on Armed Services, I favorably report nominations for the routine promotion of some 2,000 officers of the military services. There are no generals or admirals included in the nominations, and the majority are in the junior grades.

The names of the nominees were all printed in the CONGRESSIONAL RECORD on the date they were received by the Senate. In order to save the expense of reprinting these names in the Executive Calendar, I ask unanimous consent, as in executive session, for the immediate consideration of the nominations. I may say further, Mr. President, that the nominations were all ordered reported by unanimous vote of the Armed Services Committee.

The PRESIDING OFFICER. Is there objection?

Mr. MARTIN. Mr. President, will the Senator yield?

Mr. STENNIS. I am very glad to yield to the Senator from Pennsylvania.

Mr. MARTIN. Were members of both political parties present?

Mr. STENNIS. Yes. A quorum was present, and each of the two parties was fully represented.

Mr. MARTIN. I have no objection.

Mr. CONNALLY. Mr. President, I do not object, but it seems to me in cases like this the committee ought to file a list of the nominations with the Secretary at least, let us say, 2 days in advance, in order that Senators who are interested may have an opportunity to examine the report. I do not insist that this report be printed. As I understand, these are routine promotions. Is that correct?

Mr. STENNIS. They are considered to be routine nominations. The others, the so-called major nominations, were not reported. They are before the committee, and this manner of reporting is solely for the purpose of saving approximately \$500 or \$600 in a printing bill; that is, the cost of having the nominations printed in the Executive Calendar, to lie over thereafter for a day or two. The custom has developed in similar instances of asking unanimous consent to let them go directly to the RECORD.

Mr. CONNALLY. I suggest that when an armload of nominations is brought to the Senate and they are immediately confirmed and the President notified, there is no way on earth to reconsider the votes by which the nominations are confirmed, or to take names off the lists, or to do anything else with them. I think there ought to be a rule to govern cases of this kind. I do not care to make the Government pay a great printing bill in connection with the reprinting of the names, but there should be a rule requiring that nominations such as these be filed with the Secretary, say 2 days ahead of the time they are to be confirmed, in order that every Senator may go to the desk or some other appropriate place to examine the list, to ascertain whether there is any nomination on the list in which he is interested, or to make sure that the list includes someone in whom he is interested. I merely offer that as a suggestion. I do not propose any amendment. I do not object, but I submit that ought to be the practice.

SUMMARY OF THE PROVISIONS OF THE REVENUE ACT OF 1951

(H. R. 4473)

AS AGREED TO BY THE CONFEREES

PREPARED BY THE
STAFF OF THE JOINT COMMITTEE ON
INTERNAL REVENUE TAXATION

OCTOBER 1951



UNITED STATES
GOVERNMENT PRINTING OFFICE
WASHINGTON : 1951

CONTENTS

	Page
I. Changes in the individual income tax.....	2
A. Rate changes.....	2
B. Head-of-household provision.....	5
C. Distribution of tax burden.....	7
II. General corporate tax changes.....	8
A. Normal tax, surtax and capital gains tax rate changes.....	8
B. Ceiling rate or maximum rate limitation.....	10
C. Percentage of the average base period net income taken into account in computing the excess profits credit.....	12
D. Distribution of the burden.....	12
III. Tax-exempt organizations.....	13
A. Cooperatives.....	13
B. Mutual financial institutions.....	15
1. Mutual savings banks.....	15
2. Savings and loan associations.....	17
C. Unrelated business income of State and local government colleges and universities.....	19
D. Educational "feeder" corporations.....	20
E. Publishing business carried on by tax-exempt organizations..	20
F. Deduction of repayments of indebtedness in the case of educational organizations carrying on certain types of unrelated trades or businesses.....	20
IV. Structural changes in the income taxes.....	21
1. Surtax exemptions and minimum excess-profits tax credits of related corporations.....	21
2. Additional withholding upon agreement by employer and employee.....	22
3. Payments to beneficiaries of deceased employees.....	22
4. Basis of joint and survivor annuities included in the gross estate.....	22
5. Income from discharge of indebtedness.....	23
6. Additional allowance for certain members of the Armed Forces.....	24
7. LIFO method of accounting.....	24
8. Medical expenses.....	25
9. Elections to use the standard deduction and to file joint or separate returns.....	25
10. Expenditures in the development of mines.....	25
11. Earnings of dependents.....	26
12. Application of the intercorporate dividends-received credit in the case of resident foreign corporations.....	26
13. Capital gains of corporations improperly accumulating surplus (sec. 102 of code).....	27
14. Liquidation of corporations.....	28
15. Corporate reorganizations (spin-offs).....	28
16. Gain from sale or exchange of the taxpayer's residence.....	28
17. Percentage depletion.....	30
18. Redemption of stock to pay death taxes.....	31
19. Individuals earning income abroad.....	31
20. Offset of short- and long-term capital gains and losses.....	32
21. Sales of land with unharvested crops.....	32
22. Gains from sales of livestock.....	33
23. Coal royalties.....	33
24. Collapsible corporations.....	34
25. Dealers in securities.....	35
26. Sale of property between spouses and between an individual and a controlled corporation.....	35

	Page
IV. Structural changes in the income taxes	
27. Termination payments to employees	36
28. Net operating loss deductions	36
29. Restricted stock options	37
30. Foreign tax credit for taxes paid by a foreign corporation	37
31. Information at source on payments of interest	38
32. Abatement of income taxes for certain members of the Armed Forces dying in combat zones or as a result of injuries received in such zones	38
33. Stock distributions of profit-sharing plans	38
34. Life insurance companies	39
35. Venture capital companies	40
36. Exchanges and distributions under SEC orders	41
37. Family partnerships	41
38. War losses	42
39. Mine exploration expenditures	43
40. Pensions of life insurance agents	43
41. Nonbusiness casualty losses	44
42. Abatement of tax on certain irrevocable trusts	44
43. Nondistributable income of personal holding companies	44
44. Back mail pay of railroads	45
45. Preferred stock of public utilities	45
46. Postponement of due date for returns of China Trade Act corporations	45
V. Structural changes in the excess profits tax	46
1. Special ceiling rate for new corporations	46
2. Management and technical service fees	47
3. Base period of fiscal-year corporations	48
4. Extension of growth alternative to new corporations	48
5. Technical amendment of growth alternative	49
6. Inadmissible assets of banks	50
7. Reductions in inadmissible assets subsequent to the base period	51
8. Dealers in municipal bonds	51
9. Base period abnormalities	51
10. Capital reduction for loans made by parent corporations to subsidiaries	52
11. Change in products committed to prior to close of base period	52
12. Technical amendment relating to new corporations	53
13. Regulated public utility credit for intrastate pipelines	53
14. Lessor railroad corporations	53
15. Exempt excess output of sulfur, potash, metallurgical grade limestone and chemical grade limestone	54
16. Transition from World War II production and increase in peacetime capacity	54
17. Special relief provision for corporations suffering catas- trophes	55
18. Consolidation of newspapers	55
19. Special relief provision for companies engaged in television broadcasting during the base period	55
20. Construction resulting in an increase in capacity completed after end of base period	56
21. Taxable exchanges	56
22. Exemption for strategic minerals	57
23. Consolidated returns	57
VI. Structural changes in estate and gift taxes	58
1. Foreign estate tax credit	58
2. United States bonds held by nonresident aliens	58
3. Works of art loaned by nonresident aliens	59
4. Estate taxes of servicemen killed in Korea	59
5. Reversionary interest of decedents dying prior to February 10, 1939	59
6. Decedents dying in 1950 with pre-1931 life estates retained	59
7. Pre-1916 transfers with reversionary interests retained	60
8. Reversionary interests in life insurance—decedents dying after October 21, 1942	60

	Page
VII. Excise tax changes.....	61
A. Alcoholic beverages.....	61
1. Distilled spirits.....	61
2. Beer.....	62
3. Wines.....	62
4. Occupational taxes on dealers in liquor.....	63
5. Spirits lost in floods of 1951.....	63
B. Tobacco products.....	63
1. Small cigarettes.....	63
2. Snuff, chewing tobacco, and smoking tobacco.....	63
C. Manufacturers' excises.....	64
1. Gasoline and Diesel fuel.....	64
2. Passenger cars and motorcycles.....	64
3. Automobile trucks, busses, and truck trailers.....	64
4. Automotive parts and accessories.....	64
5. Tires on toys, etc.....	65
6. Electric, gas, and oil appliances.....	65
7. Navigation receivers sold to the United States Government.....	65
8. Refrigeration equipment.....	66
9. Sporting goods.....	66
10. Photographic apparatus and film.....	67
11. Electrical energy.....	67
12. Fountain pens, ball-point pens, and mechanical pencils.....	67
13. Cigarette, cigar, and pipe lighters.....	67
D. Retail excises.....	68
1. Toilet preparations.....	68
E. Transportation and communication excises.....	68
1. Domestic telegraph, cable, and radio messages.....	68
2. Long-distance telephone calls from members of the Armed Forces in combat areas.....	68
3. Transportation of persons.....	68
4. Transportation of excavation material.....	69
F. Excises on amusements or recreation.....	70
1. General admissions.....	70
2. Cabarets.....	71
G. Excises on gambling.....	71
1. Tax on wagers.....	71
2. Occupational tax.....	73
3. Coin-operated gaming devices.....	73
H. Floor stock taxes and refunds.....	73
VIII. Miscellaneous.....	74
1. Claims under the Renegotiation Act.....	74
2. Prohibition upon denial of Social Security Act funds.....	74
3. Removal of tax-exempt expense allowances of the President, Vice President, Speaker of the House, and Members of Congress.....	75

REVENUE ACT OF 1951 AS AGREED TO BY THE CONFEREES

It is estimated that the Revenue Act of 1951 as agreed to by the conferees will produce approximately \$5.7 billion annually when fully effective under the business conditions anticipated for the calendar year 1951. Of this amount it is anticipated that \$2,764 million will be collected in the fiscal year 1952. Total collections in the fiscal year 1952 are estimated at \$60.9 billion under present law. As a result it is anticipated that the additional revenue realized by this bill will increase collections in the fiscal year 1952 to about \$63.7 billion.

The increase in collections in the fiscal year 1952 is smaller than the increase in tax liabilities in a full year of operation, both because the changes are not effective for the entire fiscal year 1952, and because collections tend to lag behind the incurring of liabilities. As shown in table 1, it is estimated that the bill will increase individual income-tax liabilities by \$2,280 million in a full year of operation, or by \$1,190 million in the fiscal year 1952. In the case of corporate income and excess-profits taxes, it is anticipated that the bill will increase liabilities by \$2,207 million in a full year of operation, or by \$787 million in the fiscal year 1952. Excise taxes are estimated to be increased by \$1,204 million by the bill in a full year of operation, and by \$787 million in the fiscal year 1952. These figures include not only the rate changes made by the bill, but also the structural changes as well.

The increase in excise-tax collections in the fiscal year 1952 assumes that the changes in these taxes will become effective as of November 1, 1951.

TABLE 1.—*Estimated effect of the conference bill on tax liabilities in a full year of operation and on collections in the fiscal year 1952*

[In millions]

	Full year effect	Fiscal year 1952 effect
Individual income tax.....	\$2,280	\$1,190
Corporate income and excess profits taxes.....	¹ 2,207	¹ 787
Excise taxes.....	1,204	² 787
Total.....	5,691	2,764

¹ Net increase after allowing for reduction in individual income taxes due to lower dividends.

² Assumes excise tax changes are effective Nov. 1, 1951.

NOTE.—The above estimates include structural changes in the individual and corporate taxes.

I. CHANGES IN THE INDIVIDUAL INCOME TAX

The bill contains a new rate schedule for computing the surtax of individuals which provides for an increase in tax liability of 11 percent of the present tax on the first \$2,000 (\$4,000 in the cases of married couples) of surtax net income¹ and in the case of surtax net income in excess of this amount about 11.75 percent of the tax computed under present law or 9 percent of the surtax net income remaining after the deduction of the present tax, whichever is the smaller. This increase provided by the bill applies only to the tax on ordinary income. The 25-percent alternative tax on capital gains is increased to 26 percent. The rate increases on ordinary income, in effect, are made as of November 1, 1951, the date when increased withholding becomes effective, and are to terminate as of December 31, 1953. The change in the alternative tax on capital gains is effective with respect to the calendar years 1952 and 1953.

The bill also grants to heads of households 50 percent of the benefits of income splitting now enjoyed by married persons. For calendar year taxpayers this head-of-household provision is to be effective beginning in 1952.

It is estimated that in a full year of operation the individual income tax rate changes (including capital gains) will increase liabilities by \$2,485 million and that on the same basis the head-of-household provision will decrease revenues by \$55 million. Thus, it is estimated that the combined effect of these provisions will be to increase liabilities in a full year of operation by \$2,430 million.

Since, in effect, the rate changes do not become operative until November 1, and the head-of-household provision for practically all taxpayers will not be effective until January 1, 1952, collections in the fiscal year 1952, ending June 30, 1952, will not fully reflect the increases provided. Therefore, fiscal year 1952 collections are expected to be increased by only about 58 percent of the \$2,430 million, or by \$1,414 million.

A. RATE CHANGES

For taxable years beginning after October 31, 1951, the bill increases the present individual income taxes by the lower of either about 11.75 percent of the present combined normal tax and surtax, or approximately 9 percent of the surtax net income¹ after present taxes. However, in the first \$2,000 surtax net income bracket the increase is to be 11 percent instead of 11.75 percent. These increases are incorporated in the surtax rate schedule and are to terminate as of December 31, 1953.

The combined normal tax and surtax bracket rates under present law and under the bill for 1952 and 1953 are shown in the first two columns of table 2. These are the marginal tax rates for single persons (other than heads of households) under present law and the conference bill. Because of income splitting, however, these are not the marginal rates for married couples. These marginal rates under present law and under the conference bill are shown in the third and fourth columns of table 2. The surtax bracket rates under the conference bill range from 22.2 percent on the first \$2,000 of surtax net income, to 92 percent on surtax net income of \$200,000 and over. This can be compared with rates under present law

¹ Surtax net income is income after deductions and exemptions.

ranging from 20 percent on the first \$2,000 to 91 percent on income of \$200,000 and over. The marginal rates for married couples under the bill also range from 22.2 percent to 92 percent, but as indicated by the table, the latter rate is not effective until a surtax net income level of \$400,000 is reached.

TABLE 2.—*Marginal individual income normal tax and surtax rates under present law, and the conference bill for calendar years 1952 and 1953*

Surtax net income levels (in thousands) ¹	Single persons		Married couples	
	Present law	Conference bill	Present law	Conference bill
	<i>Percent</i>	<i>Percent</i>	<i>Percent</i>	<i>Percent</i>
\$0 to \$2.....	20	22.2	20	22.2
\$2 to \$4.....	22	24.6	20	22.2
\$4 to \$6.....	26	29	22	24.6
\$6 to \$8.....	30	34	22	24.6
\$8 to \$10.....	34	38	26	29
\$10 to \$12.....	38	42	26	29
\$12 to \$14.....	43	48	30	34
\$14 to \$16.....	47	53	30	34
\$16 to \$18.....	50	56	34	38
\$18 to \$20.....	53	59	34	38
\$20 to \$22.....	56	62	38	42
\$22 to \$24.....	59	66	38	42
\$24 to \$26.....	59	66	43	48
\$26 to \$28.....	62	67	43	48
\$28 to \$32.....	62	67	47	53
\$32 to \$36.....	65	68	50	56
\$36 to \$38.....	65	68	53	59
\$38 to \$40.....	69	72	53	59
\$40 to \$44.....	69	72	56	62
\$44 to \$50.....	72	75	59	66
\$50 to \$52.....	75	77	59	66
\$52 to \$60.....	75	77	62	67
\$60 to \$64.....	78	80	62	67
\$64 to \$70.....	78	80	65	68
\$70 to \$76.....	81	83	65	68
\$76 to \$80.....	81	83	69	72
\$80 to \$88.....	84	85	69	72
\$88 to \$90.....	84	85	72	75
\$90 to \$100.....	87	88	72	75
\$100 to \$120.....	89	90	75	77
\$120 to \$140.....	89	90	78	80
\$140 to \$150.....	89	90	81	83
\$150 to \$160.....	90	91	81	83
\$160 to \$180.....	90	91	84	85
\$180 to \$200.....	90	91	87	88
\$200 to \$300.....	91	92	89	90
\$300 to \$400.....	91	92	90	91
\$400 and over.....	91	92	91	92

¹ Income after business and personal deductions and exemptions.

The bill raises the effective rate limitation, or maximum combined normal tax and surtax on total net income, from the 87 percent provided by present law to 88 percent. This effective rate limitation prevents an individual's total net income from being taxed at a rate higher than 88 percent, although the bracket rate on income in excess of \$200,000 permits a portion of an individual's income to be taxed at as high a rate as 92 percent.

The bill also provides a new surtax rate schedule for the calendar year 1951, adding to the present tax burden about one-sixth of the increase provided for 1952 and 1953. Thus, for 1951 the present tax is increased by the lower of either nearly 2 percent of the existing law tax, or by about 1½ percent of surtax net income after deducting the present tax. This is roughly the equivalent of making the full 11.75-percent or 9-percent increase effective November 1, 1951. The combined normal tax and surtax bracket rates under the bill for the

calendar year 1951 range from 20.4 percent on the first \$2,000 of taxable income to 91 percent on taxable income over \$200,000. The effective rate limitation for calendar year 1951 taxpayers is 87.2 percent.

The bill also adds a provision which makes inapplicable, for 1951, the penalties and additions to tax for willful failure to make declarations or pay estimated tax with respect to the additional tax imposed on individuals by this bill.

The bill, in effect, raises the alternative tax on capital gains of individuals from 25 percent to 26 percent. This increase is applicable to taxable years beginning after October 31, 1951, and before November 1, 1953. No increase is provided for years which do not begin in this period even though they end in it.

Under the bill new withholding tables are provided to reflect the increased taxes. The withholding in these tables is at 20 percent as contrasted to 18 percent in the tables in present law. Similar adjustments are made in the percentage method of withholding. A withholding tax rate of 20 percent collects the full amount ordinarily due on the beginning rates provided by the bill after allowance for the standard deduction.

Table 3 shows the effective rates of tax under present law and under the bill for single persons with no dependents, for married couples with no dependents, and for married couples with two dependents, at selected net income levels.² This effective rate table differs in two important respects from the marginal rates previously shown: (1) The effective rates show the accumulative rate on all income up to any specific income level and, therefore, represent the average rates at which the entire income is taxed, and (2) they are based on net income before exemptions and, therefore, show the effective exemptions on the actual tax paid. On the same basis as the effective rates, table 4 shows the amount of tax paid at selected net income levels under the conference bill and compares these taxes with those under present law.

TABLE 3.—Comparison of individual income tax effective rates under present law and the conference bill

Net income (after deductions but before exemptions)	Single person, no dependents		Married couple, no dependents		Married couple, 2 dependents	
	Present law	Conference bill	Present law	Conference bill	Present law	Conference bill
	Percent	Percent	Percent	Percent	Percent	Percent
\$800.....	5.0	5.6				
\$1,000.....	8.0	8.9				
\$1,500.....	12.0	13.3	4.0	4.4		
\$2,000.....	14.0	15.5	8.0	8.9		
\$3,000.....	16.3	18.1	12.0	13.3	4.0	4.4
\$4,000.....	17.7	19.7	14.0	15.5	8.0	8.9
\$5,000.....	18.9	21.0	15.2	16.9	10.4	11.5
\$8,000.....	22.3	24.9	17.7	19.7	14.4	16.0
\$10,000.....	24.4	27.3	18.9	21.0	15.9	17.7
\$15,000.....	29.7	33.1	21.7	24.3	19.3	21.6
\$20,000.....	34.7	38.8	24.4	27.3	22.3	25.0
\$25,000.....	39.2	43.8	26.9	30.0	25.1	28.0
\$50,000.....	52.8	56.9	39.2	43.8	37.8	42.2
\$100,000.....	66.8	69.7	52.8	56.9	51.9	56.0
\$300,000.....	82.4	84.1	74.2	76.5	73.8	76.1
\$500,000.....	85.9	87.2	80.7	82.5	80.5	82.2
\$1,000,000.....	¹ 87.0	² 88.0	85.9	87.2	85.7	87.1

¹ Maximum effective rate limitation of 87 percent.

² Maximum effective rate limitation of 88 percent.

³ Net income is income after deductions, but before exemptions.

TABLE 4.—*Comparison of individual income-tax burdens under present law with those under the conference bill for 1952 and 1953*

SINGLE PERSON, NO DEPENDENTS

Net income (after deductions but before exemptions)	Amount of tax		Net income (after deductions but before exemptions)	Amount of tax	
	Present law	Conference bill		Present law	Conference bill
\$800.....	\$40	\$44.40	\$15,000.....	\$4,448	\$4,968.00
\$1,000.....	80	88.80	\$20,000.....	6,942	7,762.00
\$2,000.....	280	310.80	\$25,000.....	9,796	10,940.00
\$3,000.....	488	542.40	\$50,000.....	26,388	28,466.00
\$4,000.....	708	788.40	\$100,000.....	66,798	69,688.00
\$5,000.....	944	1,052.00	\$300,000.....	247,274	252,164.00
\$8,000.....	1,780	1,992.00	\$500,000.....	429,274	436,164.00
\$10,000.....	2,436	2,728.00	\$1,000,000.....	¹ 870,000	² 880,000.00

MARRIED COUPLE, NO DEPENDENTS

\$1,500.....	\$60	\$66.60	\$20,000.....	\$4,872	\$5,456.00
\$2,000.....	160	176.60	\$25,000.....	6,724	7,508.00
\$3,000.....	360	399.60	\$50,000.....	19,592	21,880.00
\$4,000.....	560	621.60	\$100,000.....	52,776	56,932.00
\$5,000.....	760	843.60	\$300,000.....	222,572	229,352.00
\$8,000.....	1,416	1,576.80	\$500,000.....	403,548	412,328.00
\$10,000.....	1,888	2,104.00	\$1,000,000.....	858,548	872,328.00
\$15,000.....	3,260	3,644.00			

MARRIED COUPLE, 2 DEPENDENTS

\$3,000.....	\$120	\$133.20	\$25,000.....	\$6,268	\$7,004.00
\$4,000.....	320	355.20	\$50,000.....	¹ 18,884	21,088.00
\$5,000.....	520	577.20	\$100,000.....	51,912	56,032.00
\$8,000.....	1,152	1,281.60	\$300,000.....	221,504	228,272.00
\$10,000.....	1,592	1,773.60	\$500,000.....	402,456	411,224.00
\$15,000.....	2,900	3,236.00	\$1,000,000.....	857,456	871,224.00
\$20,000.....	4,464	5,000.00			

¹ Maximum effective rate limitation of 87 percent.² Maximum effective rate limitation of 88 percent.

B. HEAD-OF-HOUSEHOLD PROVISION

For a person qualifying as a "head of household" section 301 of the bill provides a new surtax table applicable for taxable years beginning after October 31, 1951. Thus, for a calendar year taxpayer, the provision will not become effective until 1952. The new surtax table is constructed to give heads of households approximately one-half of the benefits of income-splitting.

The bill defines a head of a household, for purposes of obtaining the benefits of this special provision, as an individual who is not married and who maintains a household in which lives—

(1) One of his children (including an adopted child), one of their descendants or a stepchild (but the child, descendant, or stepchild if married must be a dependent of the taxpayer and not file a joint return); or

(2) Any person (not filing a joint return with a spouse), who has a gross income of less than \$600,³ more than half of whose support is supplied by the taxpayer and who bears one of the following relationships to the taxpayer:

³ Under present law the taxpayer is allowed a dependency credit provided the dependent has a gross income of less than \$500. Sec. 310 of this bill, discussed elsewhere in this summary, raises the allowable gross income of a dependent to \$600.

- (a) A brother or sister or stepbrother or stepsister,
- (b) A parent or one of their ancestors,
- (c) A stepparent,
- (d) A nephew or niece,
- (e) An uncle or aunt, or
- (f) A son-in-law, daughter-in-law, mother-in-law, father-in-law, sister-in-law, or brother-in-law.

A taxpayer is considered as maintaining a household only if during the year he furnishes more than half the maintenance costs of such household. Moreover, the individual who makes it possible for the taxpayer to gain the benefits of the head-of-household status must actually live in the taxpayer's household during the entire taxable year unless he is temporarily absent, for example, attending school or for reasons of health. Under this definition it is immaterial how much gross income an unmarried child or grandchild living with the taxpayer may have.

Table 5 shows the amount of tax paid at selected net income levels for heads of households with one dependent, for single individuals with one dependent, and for married couples with no dependents. It also shows how much less the tax of the head of household and the tax of the married couple are than that of the single person at the same income level. This represents the benefits of income splitting, which present law grants in full to married couples and which the bill grants in part to heads of households. The last column of the table expresses the income-splitting benefits granted heads of households as percentages of the income-splitting benefits available to married couples. This shows that the bill grants about 50 percent of the benefits of income splitting to heads of households.

TABLE 5.—Comparison of individual income tax burdens for heads of households under the conference bill with those for single persons with 1 dependent and for married couples under the bill for 1952 and 1953

Selected net income levels ¹	Amount of tax			Amount of tax difference between single person with 1 dependent and—		Percent tax difference between head of household and single person is of that between married couple and single person
	Head of household with 1 dependent	Single individual with 1 exemption	Married couple filing a joint return	Head of household	Married couple	
\$1,500.....	\$66.60	\$66.60	\$66.60	-----	-----	-----
\$2,000.....	177.60	177.60	177.60	-----	-----	-----
\$3,000.....	399.60	399.60	399.60	-----	-----	-----
\$5,000.....	865.20	886.80	843.60	\$21.60	\$43.20	50.0
\$8,000.....	1,684.00	1,788.00	1,576.80	104.00	211.20	49.2
\$10,000.....	2,304.00	2,500.00	2,104.00	196.00	396.00	49.5
\$15,000.....	4,150.00	4,660.00	3,644.00	510.00	1,016.00	50.2
\$20,000.....	6,436.00	7,408.00	5,456.00	972.00	1,952.00	49.8
\$25,000.....	9,024.00	10,544.00	7,508.00	1,520.00	3,036.00	50.1
\$50,000.....	24,960.00	28,016.00	21,880.00	3,056.00	6,136.00	49.8
\$100,000.....	63,040.00	69,160.00	56,932.00	6,120.00	12,228.00	50.0
\$500,000.....	424,408.00	435,612.00	412,328.00	11,204.00	23,284.00	48.1
\$1,000,000.....	² 880,000.00	² 880,000.00	872,328.00	-----	7,672.00	-----

¹ Income after deductions but before exemptions.

² Maximum effective rate limitation of 88 percent.

C. DISTRIBUTION OF TAX BURDEN

Table 6 shows the distribution of the individual income tax burden under present law and the bill by adjusted gross income classes.⁴ It also distributes by the same classes the number of taxable returns, the adjusted gross income, the value of the exemptions and the normal tax and surtax net income.⁵

The table indicates that of \$25,885 million in total individual income tax liability under the bill, \$9,638 million will come from those with adjusted gross incomes under \$5,000 and \$16,247 million from those with adjusted gross incomes of over \$5,000.

TABLE 6.—*Estimated distribution of individual income tax returns, income exemptions and tax liability under present rates and under the conference bill when fully effective*

[Money amounts in millions of dollars]

Adjusted gross income classes	Total number of taxable returns	Adjusted gross income	Value of exemptions	Surtax net income	Total tax, present law ¹	Total tax under conference bill ¹	Tax increase, conference bill over present law ¹
Under \$1,000.....	1,868,095	\$1,556	\$1,121	\$272	\$54	60	6
\$1,000 to \$2,000.....	6,991,074	10,875	5,436	4,209	842	934	93
\$2,000 to \$3,000.....	10,908,014	27,275	12,918	11,226	2,245	2,492	247
\$3,000 to \$4,000.....	9,830,797	33,462	15,496	14,315	2,871	3,187	316
\$4,000 to \$5,000.....	6,262,777	27,905	11,259	13,247	2,672	2,965	293
Total under \$5,000.....	35,860,757	101,073	46,230	43,268	8,684	9,638	954
\$5,000 to \$10,000.....	6,645,679	42,850	12,524	24,916	5,080	5,637	558
\$10,000 to \$25,000.....	1,342,865	19,470	2,637	14,742	3,488	3,879	392
\$25,000 to \$50,000.....	247,141	8,200	495	6,970	2,289	2,539	250
\$50,000 to \$100,000.....	70,115	4,675	138	3,966	1,862	2,039	177
\$100,000 to \$250,000.....	18,276	2,559	35	1,966	1,276	1,354	77
\$250,000 to \$500,000.....	1,967	647	3	438	378	391	13
\$500,000 to \$1,000,000.....	479	316	1	185	192	197	5
\$1,000,000 and over.....	189	310	(²)	178	206	210	4
Total over \$5,000.....	8,326,711	79,027	15,833	53,363	14,771	16,247	1,476
Total.....	44,187,468	180,100	62,063	96,631	23,455	25,885	2,430

PERCENTAGE DISTRIBUTIONS

Under \$1,000.....	4.23	0.86	1.81	0.28	0.23	0.23	0.25
\$1,000 to \$2,000.....	15.82	6.04	8.76	4.36	3.59	3.61	3.81
\$2,000 to \$3,000.....	24.69	15.14	20.81	11.62	9.57	9.63	10.16
\$3,000 to \$4,000.....	22.25	18.58	24.97	14.81	12.24	12.31	13.00
\$4,000 to \$5,000.....	14.17	15.49	18.14	13.71	11.39	11.45	12.05
Total under \$5,000.....	81.16	56.12	74.49	44.78	37.02	37.24	39.27
\$5,000 to \$10,000.....	15.04	23.79	20.18	25.78	21.66	21.78	22.96
\$10,000 to \$25,000.....	3.04	10.81	4.25	15.26	14.87	14.99	16.12
\$25,000 to \$50,000.....	.60	4.55	.80	7.21	9.76	9.81	10.28
\$50,000 to \$100,000.....	.16	2.60	.22	4.10	7.94	7.88	7.27
\$100,000 to \$250,000.....	.04	1.42	.06	2.03	5.44	5.23	3.19
\$250,000 to \$500,000.....	(³)	.36	(³)	.45	1.61	1.51	.54
\$500,000 to \$1,000,000.....	(³)	.18	(³)	.19	.82	.76	.21
\$1,000,000 and over.....	(³)	.17	(³)	.18	.88	.81	.17
Total over \$5,000.....	18.84	43.88	25.51	55.22	62.98	62.76	60.73
Total.....	100.00	100.00	100.00	100.00	100.00	100.00	100.00

¹ Includes normal tax, surtax, and alternative tax on net long-term capital gains and increase from rate changes, including capital gains, under the conference bill and decrease due to head of household provision.

² Less than \$500,000.

³ Less than 0.005 percent.

NOTE.—Figures are rounded and may not add to totals.

⁴ Income after business but before personal deductions and exemptions.

⁵ Income after business and personal deductions and exemptions.

II. GENERAL CORPORATE TAX CHANGES

The bill provides a corporate income tax rate of 30 percent on the first \$25,000 of each corporation's income, and a 52-percent rate on all income in excess of \$25,000. This can be compared with present law rates of 25 percent on the first \$25,000 of income, and 47 percent on all income in excess of \$25,000. Under the bill the top corporate income tax rate, taken together with the 30 percent excess profits tax rate, gives a combined rate of 82 percent applying to adjusted excess profits net income, as compared with a combined rate of 77 percent under existing law. The bill provides a ceiling rate of 18 percent for excess profits tax and consolidated return purposes, which when taken together with the maximum effective rate of about 52 percent under the corporate income tax, means that in no case will more than about 70 percent of a corporation's income be taken in income, consolidated return and excess profits taxes. Present law provides a ceiling rate on income taxes and excess profits taxes, taken together, of 62 percent. The tax rate on capital gains is increased from 25 percent to 26 percent. The bill also reduces from 85 to 83 percent the proportion of the average base period net income which may be taken into account in computing the excess profits credit. The normal tax and surtax rate changes provided by the bill are effective as of April 1, 1951, and are to terminate as of April 1, 1954. The ceiling rate change also is effective as of April 1, 1951, and will not be generally operative after June 30, 1953, the termination date for the excess profits tax. The change in the capital gains tax rate is applicable to the calendar years 1952, 1953 and 1954. The change in the percentage of average base period net income taken into account for excess profits tax purposes is effective July 1, 1951 and, like the ceiling rate, will not be operative after the termination of the excess profits tax.

It is estimated that in a full year of operation these changes in corporate rates will increase liabilities by \$2,545 million before consideration is given to the effect on individual income taxes of the smaller amounts which will be available for corporation dividend payments. Of this amount, \$2,250 million is attributable to the increases in the corporate normal tax and surtax and \$12 million is attributable to the increase in the capital gains tax. The additional \$283 million is attributable to increases in excess profits tax liabilities. It is estimated that after the decrease in individual income tax collections resulting from smaller dividend payments is taken into account, the net increase provided by the bill with respect to corporate rates will be \$2,343 million.

In the fiscal year 1952, ending June 30, 1952, it is estimated that the increases in corporate rates provided by the bill will increase revenues in this year by \$961 million.

A. NORMAL TAX, SURTAX AND CAPITAL GAINS TAX RATE CHANGES

For taxable years beginning after March 31, 1951, the bill provides a corporate normal tax rate of 30 percent as compared to a normal tax rate of 25 percent under existing law. The corporate surtax rate under both the bill and existing law is 22 percent. Changes are also provided in the bill in the credits allowed Western Hemisphere trade

corporations and the credits for dividends paid and received on preferred stock of public utilities, which retain the tax differential provided in these cases under existing law. These rate and credit changes are to terminate as of April 1, 1954.

Since corporations with incomes of \$25,000 or less are subject only to the normal tax, their rate of tax is increased from 25 percent to 30 percent under the bill. The combined normal tax and surtax on incomes in excess of \$25,000 is increased from 47 percent to 52 percent. Table 7 compares for corporations with selected net incomes the combined corporate normal tax and surtax effective rates under the bill with those under existing law and under the law in effect prior to the enactment of the Revenue Act of 1950. The table indicates that under the provisions of the bill the effective rate, or average rate on the entire taxable income, for all corporations is 5 percentage points above existing law.

Table 8 shows for corporations with selected net incomes the combined corporate normal tax and surtax liabilities under the bill, under existing law, and under the law in effect prior to the enactment of the Revenue Act of 1950. The increase in tax liabilities of the bill over existing law ranges in the cases shown from 20 percent on incomes under \$25,000, to 10.64 percent on incomes of \$100,000,000.

The bill also provides a new corporate normal tax rate for 1951 for calendar year corporations. This rate is 28 $\frac{3}{4}$ percent which, when combined with the 22 percent surtax rate, gives a top rate of 50 $\frac{3}{4}$ percent for 1951. Thus, the tax rates in 1951 of these calendar year corporations are increased by three-quarters of the increase applicable in 1952 and 1953. This is roughly the equivalent of making the full 5-percentage-point increase effective April 1, 1951. For corporations with taxable years beginning prior to July 1, 1950, and ending after March 31, 1951, the bill provides a formula for prorating the taxes due under the law in effect prior to the Revenue Act of 1950, under existing law and under the bill for years beginning after March 31, 1951. For corporations with taxable years beginning after June 30, 1950, and ending after March 31, 1951, the bill prorates the taxes due under existing law and under the bill for years beginning after March 31, 1951. In general these proration formulas provide that the tax due on the entire income is to be computed at the two or three different rates applicable. Then these taxes are multiplied by a fraction of which the numerator is the number of days in the corporation's taxable year in which the rate in question is effective, and the denominator is the total number of days in its taxable year. The sum of these fractional taxes is the corporation's final obligation. This latter procedure is also made applicable with respect to the termination of the rate increases in 1954 for corporations with taxable years beginning before and ending after April 1, 1954.

TABLE 7.—*Comparison of corporate combined normal tax and surtax effective rates under present law and the conference bill*

Net income subject to normal tax and surtax	Effective rates of combined normal tax and surtax (percent)			Percentage point increase of conference bill over present law
	Pre-1950	Present law	Conference bill	
\$1,000.....	21.00	25.00	30.00	5.00
\$5,000.....	21.00	25.00	30.00	5.00
\$10,000.....	22.00	25.00	30.00	5.00
\$25,000.....	23.00	25.00	30.00	5.00
\$30,000.....	28.00	28.67	33.67	5.00
\$40,000.....	34.25	33.25	38.25	5.00
\$50,000.....	38.00	36.00	41.00	5.00
\$60,000.....	38.00	37.83	42.83	5.00
\$75,000.....	38.00	39.67	44.67	5.00
\$100,000.....	38.00	41.50	46.50	5.00
\$200,000.....	38.00	44.25	49.25	5.00
\$500,000.....	38.00	45.90	50.90	5.00
\$1,000,000.....	38.00	46.45	51.45	5.00
\$10,000,000.....	38.00	46.95	51.95	5.00
\$100,000,000.....	38.00	46.99	51.99	5.00

TABLE 8.—*Comparison of corporate normal tax and surtax liabilities under pre-1950 law, present law, and conference bill*

Net income subject to normal tax and surtax	Combined normal tax and surtax			Increase in tax liability of conference bill over present law	
	Pre-1950	Present law	Conference bill	Amount	Percent
\$1,000.....	\$210	\$250	\$300	\$50	20.00
\$5,000.....	1,050	1,250	1,500	250	20.00
\$10,000.....	2,200	2,500	3,000	500	20.00
\$25,000.....	5,750	6,250	7,500	1,250	20.00
\$30,000.....	8,400	8,600	10,100	1,500	17.44
\$40,000.....	13,700	13,300	15,300	2,000	15.04
\$50,000.....	19,000	18,000	20,500	2,500	13.89
\$60,000.....	22,800	22,700	25,700	3,000	13.22
\$75,000.....	28,500	29,750	33,500	3,750	12.61
\$100,000.....	38,000	41,500	46,500	5,000	12.05
\$200,000.....	76,000	88,500	98,500	10,000	11.30
\$500,000.....	190,000	229,500	254,500	25,000	10.89
\$1,000,000.....	380,000	464,500	514,500	50,000	10.76
\$10,000,000.....	3,800,000	4,694,500	5,194,500	500,000	10.65
\$100,000,000.....	38,000,000	46,994,500	51,994,500	5,000,000	10.64

As in the case of the alternative tax on capital gains of individuals the bill raises the capital gains tax for corporations from 25 percent to 26 percent. This increase is applicable to taxable years beginning after March 31, 1951, and before April 1, 1954. It does not apply to years beginning before April 1, 1951, even though they end within this period. It does not, for example, apply to the calendar year 1951.

B. CEILING RATE OR MAXIMUM RATE LIMITATION

Under existing law the normal tax, surtax, 2-percent tax on consolidated returns, and excess profits tax together may not exceed 62 percent of a corporation's excess profits net income (income determined for excess profits before deducting the excess profits credit and unused excess profits credit carry-over).⁶ Thus, for corporations with

⁶ For this purpose the excess profits net income is substituted for the normal tax net income and surtax net income in computing the various taxes involved. The 30 percent excess profits tax rate is applied to adjusted excess profits net income—that is, excess profits net income after deduction of the excess profits credit and the unused excess profits credit carry-over.

effective income tax rates of about 47 percent under present law, this means that the excess profits tax may not exceed about 15 percent of their excess profits net income.

The bill adopts a new type of ceiling rate. The ceiling rate in this bill is 18 percent of excess profits net income with respect to taxable years beginning after April 1, 1951, but applies only with respect to excess profits tax liability and the proportion of the tax liability under the consolidated returns tax which is attributable to the excess profits tax net income. For corporations with income tax effective rates of about 52 percent the 18-percent rate under the new formula is the equivalent of about a 70-percent ceiling rate on liabilities under the income taxes, consolidated return tax, and excess profits tax, taken together. However, because of the \$25,000 surtax exemption, the effective income tax rates of corporations with taxable incomes of less than \$250,000 is less than 50 percent. As a result a ceiling rate of 70 percent on their combined income and excess profits liabilities is quite different from an 18-percent ceiling on their excess profits tax liabilities. Table 9 shows, for selected income levels, the effective income tax rates under the bill, and the maximum effective rates with the 70-percent ceiling formula and the 18-percent ceiling formula. The table indicates that for corporations with incomes over \$62,500¹ the 18-percent formula is the more generous, resulting in a maximum tax saving of about 5 percent of total income for corporations with incomes of about \$108,333.

TABLE 9.—Corporation normal tax and surtax effective rates under the conference bill with a comparison of the maximum effective rates of income and excess-profits taxes under a 70-percent ceiling on income and excess-profits taxes with the ceiling rate under the conference bill (18 percent ceiling rate on excess-profits taxes alone)

Current income	Effective rate of normal tax and surtax under conference bill	Maximum effective rate of income and excess-profits tax		
		70 percent income and excess-profits ceiling	18 percent excess-profits tax ceiling	Percentage point difference
	Percent	Percent	Percent	Percent
\$10,000.....	30.00	1 30.00	2 30.00	-----
\$25,000.....	30.00	1 30.00	2 30.00	-----
\$30,000.....	33.67	1 38.67	2 38.67	-----
\$40,000.....	38.25	1 49.50	2 49.50	-----
\$50,000.....	41.00	1 56.00	2 56.00	-----
\$60,000.....	42.83	1 60.33	2 60.33	-----
\$62,500.....	43.20	1 61.20	61.20	-----
\$70,000.....	44.14	1 63.43	62.14	1.29
\$80,000.....	45.13	1 65.75	63.13	2.62
\$90,000.....	45.89	1 67.56	63.89	3.67
\$100,000.....	46.50	1 69.00	64.50	4.50
\$108,333.....	46.92	70.00	64.92	5.08
\$150,000.....	48.33	70.00	66.33	3.67
\$200,000.....	49.25	70.00	67.25	2.75
\$250,000.....	49.80	70.00	67.80	2.20
\$300,000.....	50.17	70.00	68.17	1.83
\$400,000.....	50.63	70.00	68.63	1.37
\$500,000.....	50.90	70.00	68.90	1.10
\$1,000,000.....	51.45	70.00	69.45	.55
\$10,000,000.....	51.95	70.00	69.95	.05
\$100,000,000.....	51.99	70.00	69.99	.01

¹ As a result of the \$25,000 surtax exemption and the \$25,000 minimum credit, the maximum effective rate on income and excess-profits tax liabilities is always less than 70 percent for corporations with incomes below \$108,333.

² As a result of the \$25,000 minimum excess-profits tax credit, the maximum effective excess-profits tax rate for corporations with incomes below \$62,500 is always less than 18 percent.

³ For corporations with incomes under \$62,500 the \$25,000 minimum excess-profits tax credit prevents a higher effective rate than 18 percent under both formulas.

Under existing law the ceiling rate is 62 percent as compared with a top effective income tax rate (combined normal tax and surtax) of 47 percent. With the increase of 5 percent in the normal tax provided in the bill an equivalent ceiling rate would be 67 percent. With the new type of ceiling rate the addition under the bill to bring the over-all rate for the largest companies from 52 percent to 67 percent, would be 15 percent of excess profits net income. The increase to 18 percent is thus, in effect, an increase in excess profits tax for those corporations which are affected by the ceiling rate.

For calendar year corporations the bill provides a ceiling rate on excess profits tax liability in 1951 of 17¼ percent. This represents three-fourths of the full increase made in the ceiling rate and is roughly the equivalent of making the increase in the ceiling rate effective April 1, 1951. For other corporations with years beginning before and ending after April 1, 1951, a proration formula is provided similar to that previously discussed in connection with the corporate rate changes.

C. PERCENTAGE OF THE AVERAGE BASE PERIOD NET INCOME TAKEN INTO ACCOUNT IN COMPUTING THE EXCESS-PROFITS CREDIT

Under present law a corporation in computing its excess-profits credit on the basis of average earnings may take into account only 85 percent of its average earnings in its three best years in the period 1946-49. The bill (sec. 602) reduces this percentage to 83 percent.

This change is effective as of July 1, 1951, and becomes inoperative at the time of the termination of the excess profits tax, June 30, 1953. For calendar year corporations the credit to be used in determining the credit for 1951 will be 84 percent. For other corporations with taxable years beginning before and ending after July 1, 1951, the credit is prorated between the 85 percent and the 83 percent on a basis similar to that previously discussed in connection with the corporate income tax changes.

D. DISTRIBUTION OF THE BURDEN

Table 10 shows the combined corporate income and excess profits tax liabilities of corporations in various income classes under existing law and under the conference bill. The table indicates that of the 415,182 corporations with taxable net income, 292,491, or about 70 percent of the total, have incomes of less than \$25,000. These corporations, which have 4.8 percent of the total taxable income, bear about 4.3 percent of the increase in tax liabilities provided by the bill. The 45,022 corporations with incomes of \$100,000 and over, which constitute about 11 percent of the total number of corporations with taxable net income, have 87.25 percent of the total taxable income, and bear about 88.2 percent of the increase provided by the bill.

TABLE 10.—*Estimated corporate net income, taxable returns, and tax liability under present law and under the conference bill*¹

Taxable net income classes	Number of taxable returns	Taxable net income	Income and excess profits tax liabilities		Increase present law
			Present law	Conference bill	
		<i>Millions</i>	<i>Millions</i>	<i>Millions</i>	<i>Millions</i>
Up to \$25,000.....	292,491	\$2,161	\$540	\$648	\$108
\$25,000 to \$50,000.....	47,192	1,566	520	602	82
\$50,000 to \$100,000.....	30,477	2,018	899	1,009	110
\$100,000 and over.....	45,022	39,311	21,426	23,659	2,233
Total, excluding capital gains.....	415,182	45,056	23,385	25,918	2,533
Capital gains.....		1,200	300	312	12
Total, including capital gains.....	415,182	46,256	23,685	26,230	2,545

PERCENTAGE DISTRIBUTION

Up to \$25,000.....	70.45	4.80	2.31	2.50	4.26
\$25,000 to \$50,000.....	11.37	3.47	2.22	2.32	3.24
\$50,000 to \$100,000.....	7.34	4.48	3.85	3.89	4.34
\$100,000 and over.....	10.84	87.25	91.62	91.29	88.16
Total, excluding capital gains.....	100.00	100.00	100.00	100.00	100.00

¹ Based on a level of profits before tax (Commerce basis) of \$48 billion.

III. TAX-EXEMPT ORGANIZATIONS

The bill imposes the regular corporate income tax on certain undistributed profits of the following organizations fully exempt from income tax under section 101 of the present law: Farmers' purchasing and marketing cooperatives, mutual savings banks, and State chartered savings and loan associations (including cooperative banks) as well as Federal savings and loan associations. Other provisions of the bill which deal with tax-exempt organizations include an amendment taxing the unrelated business of colleges and universities of States and local governments; an amendment specifically exempting from income tax for years prior to 1951 the "feeder" corporations of certain types of educational and charitable organizations; an amendment exempting from tax publishing businesses of educational organizations under certain conditions and for a limited period of time; and an amendment providing a deduction for a limited period of time for repayments of debts incurred under certain circumstances in the acquisition by colleges of unrelated businesses.

It is estimated that in a full year of operation the provisions referred to above will increase revenues by \$28 million.

A. COOPERATIVES (SEC. 314)

Section 101 (12) of the code exempts from income tax all farm cooperatives which meet certain specified requirements. This exemption includes not only cooperatives marketing the products of farmers but also cooperatives purchasing products and reselling them to farmers. The chief requirements which must be met by cooperatives in order to be exempt from income tax under section 101 (12) are as follows:

1. They must be farmers', fruit growers', or like associations organized and operated on a cooperative basis for the purpose of marketing products or purchasing supplies for their members.

2. Substantially all of their stock (other than preferred non-voting stock) must be owned by producers marketing products or purchasing supplies through the cooperatives.

3. The marketing of products of nonmembers may not exceed 50 percent in value of the cooperative's total marketing.

4. The purchasing for nonmembers may not exceed 50 percent of the cooperative's total purchasing, and the purchasing for persons who are neither members nor producers may not exceed 15 percent of the cooperative's total purchasing.

5. Nonmembers must not be discriminated against in the allocation of patronage dividends or refunds to the accounts of patrons.

At the present time, the advantages which are derived from exemption can be summarized as follows: First, the earnings of a cooperative which are paid out to shareholders in the form of dividends on capital stock are not taxable to an exempt cooperative but are taxable to other cooperatives. Second, any part of the net margins or profits which are retained as reserves and not allocated to the accounts of patrons are not taxable to an exempt cooperative but are taxable in the case of other cooperatives. Third, nonoperating income such as interest, dividends, rents, and capital gains and also the income from certain business done with the United States Government or its agencies, is taxable to the ordinary cooperative even when allocated to the accounts of patrons, but is tax-free to the exempt cooperative whether or not allocated.

Section 314 of the bill continues the income tax exemption provided by section 101 (12) of the code but removes from its application earnings which are placed in reserves or surplus and not allocated or credited to the accounts of patrons. In addition to being tax-free with respect to patronage dividends paid or allocated to patrons, as is generally also true in the case of other cooperatives, the cooperatives coming under section 101 (12) are also to remain exempt with respect to amounts paid as dividends on capital stock, and with respect to amounts allocated to patrons where the income involved was not derived from patronage, as in the case of interest, rents or income derived from business done with the Federal Government. Amounts which are allocated or paid to patrons, with respect to patronage, are to be deductible to the cooperative if made on or before the 15th day of the ninth month following the close of the year in which the patronage occurred. Similarly, where nonpatronage income is allocated to patrons before the middle of the ninth month of the year, it is deductible in the preceding year.

As a result of this action, all earnings or net margins of cooperatives will be taxable either to the cooperative, its patrons, or its stockholders, with the exception of net margins on patronage which are paid or allocated to patrons on the basis of purchases of personal, rather than business, expense items. With this exception, funds which are allocated to the accounts of patrons, or paid in cash or merchandise, are taxable to them. This is true in the case of either taxable or tax-exempt cooperatives. Funds which are not paid or allocated to patrons but are retained as reserves by the cooperatives will be taxable to the cooperative. This also will be true of both types of coopera-

tives. Funds paid out as dividends on ordinary capital stock in the case of the exempt cooperative will be taxable to the stockholder, while in the case of the taxable cooperative a tax is imposed at both the stockholder and the cooperative levels.

In the case of either a tax-exempt or a taxable cooperative net margins earned on patronage (but not earnings from other sources) which are paid or allocated to patrons on the basis of personal expense items have been held to have no income-tax consequences to the patrons, on the grounds that they represent a return with respect to expenditures by the patron of a personal nature, for which no income tax deduction has been taken by him.

With respect to patronage dividends, any corporation, except those exempt from tax under section 101 (10) and (11) and those taxed under supplement G, are required by the bill to make information returns giving the name and address of patrons to whom they have made allocations or cash and merchandise payments amounting to \$100 or more and the amount of such allocations. In addition, the Secretary of the Treasury is given the authority to require these information returns with respect to all patronage dividends irrespective of the size of the patronage dividends. The organizations to which this provision is not applicable include REA cooperatives, mutual ditch or irrigation companies, cooperative telephone companies, mutual casualty and fire insurance companies, and mutual life insurance companies.

The amendments made by the bill with respect to the tax treatment of cooperatives exempt under section 101 (12) of the code are applicable to taxable years beginning after December 31, 1951. The amendment requiring certain information returns with respect to patronage dividends is applicable to the calendar year 1951 and subsequent years.

B. MUTUAL FINANCIAL INSTITUTIONS

1. *Mutual savings banks (secs. 313, 346)*

The primary function of mutual savings banks is to provide safe and convenient facilities to care for savings. They also have the responsibility of investing the funds left with them so as to be able to give their depositors a return on their savings.

Most mutual savings banks were started by groups of individuals who put up guaranty funds which were repaid out of subsequent earnings. The organizers appointed boards of trustees to manage the affairs of the banks. The boards of trustees, which are generally self-perpetuating, direct the policies of the banks, subject to the limitations imposed upon them by the laws of the several States in which they operate. The depositors themselves have no voice either in the choice of trustees or in the management of the bank's affairs. However, since a mutual savings bank has no capital stock, everything that the bank earns is, in theory, held for the benefit of the depositors.

With respect to outlets for their funds, mutual savings banks are subject to limitations similar to those which apply to other banking institutions. They are not limited to making loans only to depositors or members. Table 11 shows the types of assets held by mutual savings banks as of December 30, 1950, and in the case of federally insured mutual savings banks, the types of real-estate loans as of June 30, 1950, and their earnings, expenses, and dividends for the

year ending December 30, 1950. The table indicates that United States Government obligations represent nearly 51 percent, and loans 38 percent of the total loans and investments of these banks. Table 11 also indicates in the case of federally insured mutual savings banks, for which statistics are available, that, as of June 30, 1950, about 33 percent of the real-estate loans held by these banks were either insured by the Federal Housing Administration or guaranteed by the Veterans' Administration. The total deposits of mutual savings banks as of June 27, 1951, were \$20,400 million and their capital accounts, \$2,290 million,⁹ indicating that they have reserves of slightly over 11 percent of their deposits.

TABLE 11.—*Types of assets held by mutual savings banks as of Dec. 30, 1950; and, for federally insured mutual savings banks, types of real estate loans held as of June 30, 1950; and earnings, expenses, and dividends in the calendar year 1950*

I. ASSETS OF ALL MUTUAL SAVINGS BANKS IN THE UNITED STATES, AS OF
DEC. 30, 1950

[Dollar amounts in millions]

Item	Amount
Total assets.....	\$22,385
Cash and funds due from banks.....	797
United States Government obligations.....	10,868
Obligations of States and subdivisions.....	88
Other securities.....	2,253
Real estate and other loans.....	8,137
Miscellaneous assets.....	242
Number of banks, 529.	

II. FEDERALLY INSURED AND CONVENTIONAL REAL ESTATE LOANS HELD BY
INSURED MUTUAL SAVINGS BANKS, JUNE 30, 1950

[Dollar amounts in millions]

Total real estate loans.....	\$5,447
Federally insured:	
Insured FHA and guaranteed VA mortgage loans on 1- to 4-family properties.....	\$1,364
Insured FHA and guaranteed VA loans on 5 or more family properties.....	415
Total.....	1,779
Conventional loans.....	3,668
Number of insured mutual savings banks, 192.	

III. EARNINGS, EXPENSES AND DIVIDENDS OF INSURED MUTUAL SAVINGS BANKS
FOR THE YEAR ENDING DEC. 30, 1950

[Dollar amounts in thousands]

Current operating earnings, total.....	\$478,695
Interest, discount, and other income on real estate loans.....	231,730
Interest on U. S. Government obligations, direct and guaranteed.....	182,457
Other current earnings.....	64,508
Current operating expenses.....	115,470
Net current operating earnings.....	363,225
Dividends (interest) paid on deposits.....	257,770
Net profits after interest and dividends.....	91,175
Number of insured mutual savings banks, Dec. 30, 1950, 194.	

Source: Annual Report of the Federal Deposit Insurance Corporation for the year ended Dec. 31, 1950, pp. 55 and 272, and Operating Insured Commercial and Mutual Savings Banks, Assets and Liabilities, June 30, 1950, Rept. No. 33, Federal Deposit Insurance Corporation.

⁹ These statistics are published regularly in the Federal Reserve Bulletin.

Under present law section 101 (2) of the code exempts mutual savings banks from the payment of income tax. The effect of the exemption has been to relieve mutual savings banks of income tax on the amounts retained as undivided profits and additions to surplus.

Section 313 of the bill removes the income tax exemption of mutual savings banks but permits them to deduct amounts paid or credited to the accounts of depositors and permits them to deduct certain amounts credited to a reserve for bad debts. The deduction for additions to bad debt reserves may be a "reasonable addition to a reserve for bad debts * * * determined with due regard to the amount of the taxpayer's surplus or bad debt reserves existing at the close of December 31, 1951." This addition to bad debt reserves may be determined under regulations provided by the Commissioner of Internal Revenue on a similar basis as that now used in a case of ordinary commercial banks. However, in the case of mutual savings banks the institution is to be permitted to make any additions to these reserves which it deems necessary until the reserves, plus surplus and undivided profits, equal 12 percent of its total deposits. The limitation of 12 percent of total deposits is a limitation only as to additions to reserves which the institution can make, without reference to the rules provided by the Commissioner of Internal Revenue. The latter conceivably might in some cases permit additions to reserves in excess of 12 percent of total deposits. In addition, mutual savings banks are to be allowed, as a deduction from gross income, any amount currently paid to the United States, to any Federal instrumentality exempt from Federal income taxes, or to any mutual fund established under the authority of the laws of any State, in repayment of indebtedness incurred prior to September 1, 1951. On the remaining income, mutual savings banks are to be subject to the regular corporate income tax (but not the excess profits tax). An exception is made in the case of mutual, non-stock institutions organized prior to September 1, 1951, for the purpose of providing reserve funds for, and insurance of, shares or deposits in mutual savings banks. These organizations will continue to be exempt from income tax under section 101 of the Code. This provision is effective with respect to taxable years beginning after December 31, 1951.

Section 346 of the bill also deals with mutual savings banks having life insurance departments, and provides that their life insurance departments, even though not separately incorporated, are to be treated separately for tax purposes and taxed in the same manner as life insurance companies generally, if the accounts of these departments are segregated from the other accounts of the bank. This provision also is effective with respect to taxable years beginning after December 31, 1951.

2. Savings and loan associations (sec. 313)

The primary function of savings and loan associations is to provide facilities for saving and to provide a means for financing the purchase of homes. These organizations, which also go under the name of building and loan associations, are typically nonstock corporations which secure their funds through deposits, which are known as "shares." Savings and loan associations may be chartered by the States or by the Home Loan Bank Board. Of the 5,980 associations which were doing business at the end of 1949, 1,505 were Federal associations and the remainder were State-chartered institutions. The former group accounted for \$7.1 billion, or nearly 50 percent, of the \$14.7 billion of total assets of all the associations.

Not all of the earnings of savings and loan associations are distributed in the form of cash or credited to the shareholders' accounts. Some earnings are set aside in various reserve accounts, and some are retained as undivided profits. At the end of 1949, the general reserves and undivided profits of all savings and loan associations in the United States amounted to \$1.1 billion. This was over 7.5 percent of the \$14.7 billion of private savings invested in these institutions.

Most of the assets of savings and loan associations take the form of mortgage loans, usually on residential properties. Thirty years ago, this type of loan accounted for over 90 percent of the assets of these institutions; today, the percentage is somewhat lower, although mortgage loans represented 80 percent of all assets held at the end of 1950. Table 12 shows for 1950 the types of assets held by savings and loan associations at the end of the year 1950, and in the case of federally insured associations, the types of mortgage loans held at the end of the year and the net income, dividends, and additions to undivided profits during the year.

TABLE 12.—*Types of assets held by savings and loan associations as of Dec. 30, 1950, and for federally insured associations, types of real-estate loans held as of Dec. 30, 1950, and income, dividends, and undivided profits and reserves in 1950*

I. ASSETS OF ALL SAVINGS AND LOAN ASSOCIATIONS AND INSURED SAVINGS AND LOAN ASSOCIATIONS AS OF DEC. 30, 1950

[Dollar amounts in millions]

Item	All savings and loan associations	Insured savings and loan associations
Total assets	¹ \$16,925	\$13,644
First-mortgage loans	\$13,810	\$11,153
Cash	\$913	\$800
U. S. Government obligations	\$1,491	\$1,202
Number of associations	5,980	2,860

II. FEDERALLY INSURED AND CONVENTIONAL FIRST-MORTGAGE LOANS HELD BY INSURED SAVINGS AND LOAN ASSOCIATIONS, DEC. 30, 1950

[Dollar amounts in millions]

Item	Amount
Total first-mortgage loans	² \$11,188
Federally insured:	
VA-guaranteed loans	733
FHA-insured loans	2,507
Total	3,241
Conventional loans	7,947

III. INCOME, DIVIDENDS, AND UNDIVIDED PROFITS OF INSURED SAVINGS AND LOAN ASSOCIATIONS, FOR THE YEAR ENDED DEC. 30, 1950

[Dollar amounts in thousands]

Item	Amount
Net income	\$411,347
Dividends	262,781
Undivided profits and reserves	148,566

¹ Preliminary.

² The difference between this figure and the comparable category shown in pt. I is due to differences in accounting methodology.

State-chartered savings and loan associations at present are exempt from income tax under section 101 (4) of the code. In addition, Federal savings and loan associations which are chartered by the Federal Government are exempt from income tax under the Home Owners' Loan Act of 1933 and are covered by subsection (15) of section 101 of the code providing for the exemption of United States instrumentalities.

Section 313 of the bill removes the income tax exemption of savings and loan associations, including Massachusetts cooperative banks and those chartered by the Federal Government, but allows them to deduct dividends paid to depositors and the amounts placed in bad-debt reserves. The deduction for additions to bad-debt reserves is the same as that previously described in the case of mutual savings banks. Thus, the deduction may be a "reasonable addition to reserve for bad debts" but in no case less than the institution deems necessary, until the reserves equal 12 percent of total deposits or share accounts. In addition, savings and loan associations are to be allowed as a deduction from gross income any amount currently paid to the United States, to any Federal instrumentality exempt from Federal income taxes, or to any mutual fund established under the authority of the laws of any State, in repayment of indebtedness incurred prior to September 1, 1950. On the remaining income the savings and loan associations are subject to the ordinary corporate income tax (but not excess profits tax). As in the case of mutual savings banks, mutual nonstock organizations established prior to September 1, 1951, for the purpose of providing reserve funds for, or insurance of, shares or deposits in savings and loan associations (including cooperative banks) are to continue to be exempt under section 101 of the code. This provision is effective with respect to taxable years beginning after December 31, 1951.

C. UNRELATED BUSINESS INCOME OF STATE AND LOCAL GOVERNMENT COLLEGES AND UNIVERSITIES (SEC. 339)

The Revenue Act of 1950 imposed the regular corporate income tax on certain tax-exempt organizations which are in the nature of corporations, with respect to so much of their income as arises from active business enterprises which are unrelated to the exempt purposes of the organization (including certain "lease-back" income). However, this provision does not apply to such income of universities and colleges of States and local governmental units. Section 339 of the bill extends the present tax to the unrelated business income of universities and colleges of States and of other governmental units. As a result, governmental universities and colleges will be taxable on income derived from any unrelated business activities carried on by the schools themselves (including the income derived from leases for over 5 years of property purchased with borrowed funds). Their "feeder" corporations carrying on a trade or business also will be fully taxable.

This amendment is effective with respect to taxable years beginning after December 31, 1951.

D. EDUCATIONAL "FEEDER" CORPORATIONS (SEC. 601)

The Revenue Act of 1950 included a series of provisions which, under specified conditions, resulted in the imposition of taxes on educational, charitable, and certain other tax-exempt organizations, foundations, and trusts. Among these provisions was one which for 1951 and subsequent years specifically denied exemption to "feeder" corporations, that is, corporations carrying on a trade or business for profit whose profits inure exclusively to organizations exempt under section 101 of the code. With respect to prior years the tax status of such corporations was then in litigation. With respect to these years the Revenue Act of 1950 provided that no tax would be asserted for years prior to 1947 unless a deficiency had already been asserted, or taxes had already been assessed or paid.

Section 601 of the bill amends section 302 of the Revenue Act of 1950 to provide that for years prior to 1951 exemption is not to be denied feeder corporations if their profits inure to a regularly established school, college, or university or to a regularly established hospital, or institution for the rehabilitation of physically handicapped persons. The section further provides that it is not to be construed as having any effect on the tax status of feeder corporations of other types of educational or charitable organizations for years prior to 1951.

E. PUBLISHING BUSINESS CARRIED ON BY TAX-EXEMPT ORGANIZATIONS (SEC. 347)

As pointed out in the preceding discussion, the Revenue Act of 1950 imposed the corporate income tax on the "unrelated business income" of certain tax-exempt organizations. This provision has resulted in some cases in the imposition of tax upon universities with respect to income derived from the operation of a publishing business. Section 347 of the bill provides that income from this type of activity shall continue to be exempt even though in fact unrelated to the function of the tax-exempt organization if by the end of 2 years the operation of the publishing business becomes substantially related to the exercise or performance by the organization of its educational or other purpose or function described in section 101 (6).

This amendment is applicable with respect to taxable years beginning after December 31, 1950, and prior to January 1, 1953.

F. DEDUCTION OF REPAYMENTS OF INDEBTEDNESS IN THE CASE OF EDUCATIONAL ORGANIZATIONS CARRYING ON CERTAIN TYPES OF UNRELATED TRADES OR BUSINESSES (SEC. 348)

Section 348 of the bill adds a new provision to section 422 (a) of the code which deals with the taxation of the unrelated business income of certain tax-exempt organizations. It provides that educational organizations with regular student bodies and faculties which carry on an unrelated trade or business as a partnership are to receive deductions for taxable years beginning before January 1, 1954, with respect to so much of the gross income received from the partnership as is required to repay indebtedness incurred by the organizations in acquiring the unrelated trade or business. However, the deduction

is permitted only with respect to so much of the income as is required to be used for repayment of the indebtedness by a contract entered into by the educational organization prior to January 1, 1950. In addition, the partnership must have been formed prior to January 1, 1950, substantially all of its assets must have been acquired by the educational organizations prior to the same date. Also, the deduction is limited to repayments of indebtedness incurred prior to January 1, 1950.

This provision is effective with respect to taxable years beginning after December 31, 1950, and prior to January 1, 1954.

IV. STRUCTURAL CHANGES IN THE INCOME TAXES

1. Surtax exemptions and minimum excess profits tax credits of related corporations (sec. 121)

Under existing law the \$25,000 corporate surtax exemption and the \$25,000 minimum credit under the excess-profits tax are available to any corporation whether or not it is a member of a group or chain of related corporations.

Section 121 of the bill adds a new subsection (c) to section 15 of the Internal Revenue Code, dealing with cases where, after December 31, 1950, corporations split up into two or more corporations for the purpose of obtaining one or more additional \$25,000 surtax exemptions and \$25,000 minimum excess profits credits. The new subsection provides that if a corporation transfers, after that date, all or a part of its property other than money to a newly organized corporation (or to a dormant corporation utilized for that purpose), the transferee corporation will not be allowed to have \$25,000 of its income exempt from surtax, nor be allowed a minimum excess profits credit of \$25,000, if after the transfer and during any part of the taxable year the old corporation or its stockholders, or both, own 80 percent or more of its voting stock or 80 percent of the total value of its stock, unless it can show by a clear preponderance of the evidence that the corporate split-up was not made with a major purpose of obtaining an additional surtax-exemption or minimum excess-profits credit.

Although it is provided that, in general, the transferee corporation in such cases will have no surtax exemption or minimum excess-profits credit, the Secretary is authorized to allow all or any part of the surtax exemption or the minimum excess-profits credit to the transferee corporation, or to apportion either the exemption or credit between two or more corporations, if that will not result in tax avoidance. Thus, if the original corporation is split up into two or more corporations and then liquidated, the surtax credit and the minimum excess-profits credit which the old corporation would have had may be allowed to one of the new corporations or equitably divided between them. Or if the old corporation continues to operate part of the business but has an income for any taxable year of less than \$25,000 that part of the surtax exemption or the minimum excess-profits credit which it does not need may be allocated to the new corporation.

In determining the extent of an individual's holdings of the stock of a corporation for the purpose of determining control, he is to be deemed to own stock held directly or indirectly by or for his spouse or minor children, and also that portion of the stock owned by a corporation, partnership, estate, or trust in which he holds an interest,

which reflects the extent of his interest in such corporation, partnership, estate, or trust.

This provision of the bill does not prohibit or discourage expansion of an existing business accompanied by the formation of new corporations, as distinguished from the mere split-up of an existing business nor does it prevent an individual or a group of individuals who may own the stock of a corporation from forming additional corporations to engage in a similar or a different business. A corporation wishing to expand its activities may use a part of its funds, whether or not those funds represent accumulated earnings, to form the capital of a new corporation, acquiring the stock of the new corporation in exchange for those funds. Or an individual who owns all the stock of a corporation may use any cash or property he owns to form a new corporation. In such cases the new corporation will be allowed the full surtax exemption and the minimum excess profits credit.

This provision of the bill applies only to taxable years in which the excess profits tax is in effect.

2. Additional withholding upon agreement by employer and employee (sec. 203)

At the present time withholding on wages and salaries is provided only at the first bracket rate of tax even though part of the employee's income may be subject to a higher rate of tax. Section 203 of the bill amends section 1622 of the code to provide that additional withholding may be authorized where both the employer and employee agree to it.

3. Payments to beneficiaries of deceased employees (sec. 302)

Section 22 (b) (1) of the code excludes from gross income amounts received under a life-insurance contract paid by reason of the death of the insured, whether in a single sum or otherwise. However, by its terms, this provision is limited to life-insurance payments, and the exclusion does not extend to death benefits paid by an employer by reason of the death of an employee. Section 302 of the bill excludes from gross income death benefits not in excess of \$5,000 paid by any one employer with respect to any single employee's beneficiary or beneficiaries in accordance with a preexisting contract.

This provision is effective with respect to taxable years beginning after December 31, 1950.

4. Basis of joint and survivor annuities included in the gross estate (sec. 303)

Section 113 (a) (5) of the code provides that property acquired by bequest, devise, or inheritance shall have a basis for determining gain or loss equal to its fair market value at the date of the decedent's death or, if the decedent's executor elects the optional valuation date, at a date 1 year after the decedent's death. However, all property which is included in the decedent's gross estate for estate-tax purposes does not take a new basis upon the decedent's death. A joint and survivor annuity is includible in the decedent's gross estate but is treated as a gift for basis purposes so that, for purposes of gain, it has the same basis as in the hands of the donor.

Section 303 of the bill amends sections 22 (b) (2) and 113 (a) (5) of the code to provide that where a joint and survivor annuity is included

in the decedent's gross estate, its basis is to be the value of the property included in the estate and that basis is to be the "consideration paid" for the purpose of determining that portion of the annuity which the survivor must include in gross income.

This amendment is to apply only where the decedent dies after December 31, 1950.

5. Income from discharge of indebtedness (sec. 304)

Section 22 (b) (9) of the code excludes from gross income, in the case of a corporation, the amount of income attributable to the discharge of indebtedness evidenced by a bond, debenture, note, certificate, or other evidence of indebtedness. Gain may arise from the discharge of indebtedness, for example, where a corporation buys back its own bonds at less than their face value. The provisions of this section are temporary under existing law and expire automatically on December 31, 1951. Section 304 of the bill provides for the permanent enactment of the section.

The exclusion provided by section 22 (b) (9) is to be applicable only if the corporation consents to a reduction in the basis of its properties under section 113 (b) (3) in accordance with the regulations then in effect. The reduction of basis under section 113 (b) (3) is in an amount equal to the income excluded under section 22 (b) (9). In the event an amount is excluded from gross income under these provisions, an adjustment is made for unamortized premium or unamortized discount on the discharged obligation.

Existing regulations provide that an amount equal to the excluded income is first to be applied in reduction of the basis of the specific property (other than inventory, notes, or accounts receivable) in the acquisition of which the indebtedness was incurred. The reduction of basis in such case merely reflects an adjustment in the purchase price of the property. The reduction of basis under the regulations is then successively applied to the following classes of property: (1) Property securing the indebtedness, (2) other property of the taxpayer, and finally (3) inventory and accounts and notes receivable. Within these classes, the reduction in basis is applied proportionately to the property included in the class without regard to whether the property is depreciable or nondepreciable. It is understood that the Secretary of the Treasury will require by regulations that, after adjustment of the basis of certain property acquired with the purchase money indebtedness, whatever reduction in basis of property remains to be taken under section 113 (b) (3) will be taken, in general, against depreciable property or property subject to cost depletion and only as a last resort against nondepreciable property. Thus, in general, a reduction in the basis of nondepreciable property will be made only after the exhaustion of depreciable property or property subject to cost depletion.

Section 304 of the bill makes a technical amendment to section 22 (b) (9) to allow for greater flexibility as to the time for filing the required consent to a reduction of basis. Under the present law, the taxpayer must file its consent with its return for the taxable year. The bill amends the section to provide that the consent shall be filed at such time as the Secretary of the Treasury may prescribe.

This amendment is to be effective with respect to taxable years ending after December 31, 1950.

Section 304 of the bill also extends for an additional 3-year period the exclusion provided for railroad corporations under section 22 (b) (10) of the code. Section 22 (b) (10) provides that the amount of income attributable to the discharge of any indebtedness of a railroad corporation, as defined in section 77 (m) of the National Bankruptcy Act, shall be excluded to the extent that such income is deemed to have been realized by a modification or cancellation of indebtedness pursuant to an order of the court in a receivership proceeding or a proceeding under section 77 of the National Bankruptcy Act. Under present law this section also expires automatically on December 31, 1951. Unlike section 22 (b) (9), section 22 (b) (10) does not require a reduction in the basis of the taxpayer's properties as a condition to the exclusion of the income. The extension of the expiration date of section 22 (b) (10) made by this section of the bill is to December 31, 1954.

6. Additional allowance for certain members of the Armed Forces (Sec. 305)

The Revenue Act of 1950 added a new section 22 (b) (13) to the code which excludes from taxable income the compensation of members of the Armed Forces of the United States received for active service in combat zones such as Korea. This exclusion covers all the pay of enlisted men and warrant officers and the first \$200 per month paid to commissioned officers. The present exclusion only applies to services performed after June 24, 1950, and prior to January 1, 1952.

Section 305 of the bill makes three changes in the existing provision. First, the exemption is extended for 2 years beyond the present termination date to January 1, 1954. Second, the exemption is extended to include the compensation of military personnel received while hospitalized as a result of wounds, disease, or injury incurred while serving in a combat zone. Third, June 25, 1950 (and not June 27) is to be considered the date when combat commenced.

These amendments to section 22 (b) (13) are applicable to taxable years ending after June 24, 1950.

7. LIFO method of accounting (sec. 306)

Under the present law taxpayers using the LIFO inventory method have until the end of 1952 in which to make replacements of inventories involuntarily depleted during World War II. They have until the end of 1955 to make replacements of inventories involuntarily depleted during the present emergency. However, inventory replacements are required to be attributed to the most recent liquidations not already replaced, so that a replacement before the end of 1952 must be treated as a replacement of inventory liquidated during the present emergency before any inventory increases can be treated as replacements of inventory liquidated during World War II.

Section 306 of the bill provides, in effect, that replacements made prior to 1953 are first to be deemed to be replacements of liquidations during the World War II period rather than first being deemed to be replacements of liquidations during the present emergency.

This provision is effective with respect to taxable years ending after June 30, 1950.

8. Medical expenses (sec. 307)

Sec. 23 (x) of the code permits the deduction of a taxpayer's medical expenses only to the extent that such expenses exceed 5 percent of the taxpayer's adjusted gross income.

Section 307 of the bill removes this 5-percent limitation for any taxpayer, if either the taxpayer or his spouse is age 65 or over, but only with respect to the medical expenses of such taxpayer and his spouse.

This bill does not affect the maximum limitations of present law on the amount of the deduction.

This provision of the bill is effective with respect to taxable years beginning after December 31, 1950.

9. Elections to use the standard deduction and to file joint or separate returns (secs. 308, 312)

Section 23 (aa) of the code permits an individual the use of an optional standard deduction in lieu of itemizing his deductions. The election to use either of these methods of handling deductions is binding upon the taxpayer for the taxable year with respect to which the option is exercised.

Under section 51 of the code, married taxpayers may file either separate returns or a single joint return. The election, once made, as to which type of return to file is binding with respect to the taxable year for which the return is filed.

Section 308 of the bill provides that individuals who have used the standard deduction when filing their return may substitute itemized deductions at any time within the period of the statute of limitations. Moreover, taxpayers who have itemized their deductions are also to have the option to amend their return within the same period in order to take advantage of the standard deduction. This provision is effective with respect to taxable years beginning after December 31, 1949.

Section 312 of the bill provides that married individual income taxpayers who file separate returns may exercise the right to change their election and file joint returns at any time within the period of the statute of limitations. This provision is effective with respect to taxable years beginning after December 31, 1950.

10. Expenditures in the development of mines (sec. 309)

Under existing law and regulations all expenditures made with respect to a mine prior to the time it has reached the production stage must be capitalized, except that incidental income from the production of ore while the mine is being developed is offset by development expenditures, only the excess of such expenditures over such receipts being capitalized. Amounts so capitalized are deductible for income-tax purposes only through depletion allowances.

Included in the expenditures which must be so capitalized are the costs of shafts, tunnels, galleries, etc., which are necessary to make the ore or other mineral accessible. Such expenditures are required to be capitalized only until the mine reaches the production stage, which occurs when the major portion of the mineral production is obtained from workings other than those opened for the purpose of development, or when the principal activity of the mine becomes the production of developed ore rather than the development of additional ores for mining.

After a mine reaches this production stage, continued expenditures must be made to extend tunnels, galleries, etc., as the working face of the ore or other mineral recedes. Such expenditures are generally deductible currently. However, if they are extraordinary in scope they are treated as prepaid expenses to be deducted ratably as the ore benefited by the expenditure is produced and sold.

Section 309 of the bill provides that the taxpayer, with respect to expenditures paid or incurred after December 31, 1950, in the development of a mine or other natural deposit may elect either to deduct development expenditures, whether incurred before or after the production stage has been reached, in the year when they are incurred, or to treat development expenditures incurred before the production stage has been reached as deferred expenses, to be deducted ratably as the ore or mineral is sold. Such an election may be made for each year, but must be for the total amount of net development expenditure made in that year with respect to the mine.

This provision applies only when the expenditures are made after the existence of ores or minerals in commercially marketable quantities has been determined and the development stage has begun. It does not apply to oil or gas wells.

Expenditures made for the purchase of depreciable property are not to be counted as development expenditures for this purpose but the depreciation charges which appear as the result of the use of such property for development purposes may qualify for such treatment as development costs.

If the taxpayer elects to defer them, expenditures made for development will continue to increase the adjusted basis of the mine for computing gain or loss as under existing law; however, this basis will then be reduced as the deductions allowable under this provision of the bill occur. Although thus included in the adjusted basis for the purpose of computing a gain or loss from a sale, in order to prevent duplication of tax benefits, such development expenditures are not to be taken into account in determining the adjusted basis of the property for the purpose of computing depletion based upon costs.

The bill also provides that if the taxpayer elects to defer the deduction of development expenditures incurred during the development stage, the amount to be so deferred in any year will be the excess of the development expenditures in that year over the net receipts during that year from the ores or minerals produced.

This provision of the bill is effective with respect to taxable years beginning after December 31, 1950.

11. Earnings of dependents (sec. 310)

Section 25 (b) (1) (D) of the code allows a taxpayer, as a credit against net income, an exemption of \$600 for each dependent whose gross income in the year is less than \$500.

Section 310 of the bill amends section 25 (b) (1) (D) to permit the exemption for dependents whose gross income are less than \$600.

This amendment applies to taxable years beginning after December 31, 1950.

12. Application of the intercorporate dividends-received credit in the case of resident foreign corporations (sec. 311)

Under present law foreign corporations engaged in trade or business within the United States are subject to the regular corporate income taxes with respect to that portion of their income which is derived

from sources within the United States. However, where such corporations pay dividends to a United States domestic corporation, no dividends-received credit is allowed the latter, although such credit would be allowed if the domestic corporation were receiving dividends from another domestic corporation. Thus, two full corporate taxes are paid with respect to dividend income received from foreign corporations engaged in trade or business within the United States (to the extent that the dividends are paid out of income derived from sources within the United States), while as a result of the intercorporate dividends-received credit, dividends paid by one domestic corporation to another are subject only to a little more than one full corporate income tax.

Section 311 of the bill amends section 26 (b) of the code, relating to the dividends-received credit, to provide that under certain conditions dividends received from foreign corporations engaged in trade or business within the United States are to be eligible for the 85-percent intercorporate dividends-received credit. The credit is to be made available only if the foreign corporation has been engaged in trade or business within the United States, and has derived 50 percent or more of its gross income from sources within the United States, during an uninterrupted period of 36 months or more including the taxable year in which the dividends are paid. If the corporation has been in existence less than 36 months, these conditions must be met during the entire period of its existence. The credit to be allowed is an amount equal to 85 percent of the dividends received out of the foreign corporation's earnings during the current year, but not in excess of that part of the 85 percent which is proportionate to the ratio of the gross income during the current year from sources within the United States to its total gross income for that year. With respect to any distributions not out of the current year's earnings, the credit is to be allowed with respect to an additional amount equal to 85 percent of the dividends received out of the foreign corporation's earnings during the uninterrupted period (but not including the current year), but not in excess of that part of the 85 percent which is proportionate to the ratio of the corporation's gross income from sources within the United States during the uninterrupted period (but not including the current year) to its total gross income during the same period.

This provision of the bill is effective with respect to taxable years beginning after December 31, 1950.

13. Capital gains of corporations improperly accumulating surplus (sec. 102 of code) (sec. 315)

Section 102 of the code imposes an additional tax on corporations improperly accumulating surplus to avoid payment of surtax by stockholders. This additional tax is imposed on the undistributed "section 102 net income", which is, in general, net income minus the normal tax, surtax, and excess profits tax of the corporation. Under present law, the section 102 tax applies to the long-term capital gains of the corporation as well as to its ordinary income.

Section 315 of the bill amends section 102 in order to exclude net long term capital gains from the undistributed income subject to the section 102 tax. The amendment also provides, in effect, that the capital gain tax is not to be allowed as a deduction in computing income subject to the section 102 tax.

This provision is effective with respect to taxable years beginning after December 31, 1950.

14. Liquidation of corporations (sec. 316)

Under the Revenue Act of 1950, domestic corporations, including personal holding companies, may be liquidated under section 112 (b) (7) of the code for a limited period without payment of capital gain tax by the stockholders on the appreciation in value of assets held by the companies. In general, in the case of gain on stock held by individuals only that portion of the distribution to the shareholders which represents accumulated earnings is to be taxed, to the extent of the gain, as ordinary income. So much of the remainder, to the extent of the balance of the gain as consists of money, or of stock, or of securities acquired by the corporation after a basic date (August 15, 1950) is to be treated as a capital gain.

Under section 112 (b) (7) in its pre-1950 form, a similar election was available when the plan of liquidation was adopted after the date of enactment of the Revenue Act of 1943 and put into effect during the calendar year 1944. Under the amendment made by the Revenue Act of 1950, this election was restored for plans of liquidation adopted after December 31, 1950, and effected during any one calendar month in 1951.

Section 316 of the bill extends the application of section 112 (b) (7) so that taxpayers may exercise a similar election to cover liquidations of corporations during 1952.

This provision is effective with respect to taxable years ending after December 31, 1951.

15. Corporate reorganizations (spin-offs) (sec. 317)

Section 317 of the bill adds a new section 112 (b) (11) to the code to provide for the nonrecognition of gain from the receipt of stock in corporate exchanges carrying out transactions known as spin-offs. A spin-off occurs when a part of the assets of a corporation is transferred to a new corporation and the stock in the latter is distributed to the shareholders of the original corporation without a surrender by the shareholders of stock in the distributing corporation.

The benefits of the provision are limited to reorganizations in which the new corporation as well as the old corporation is intended to carry on a business after the reorganization and where only stock (other than preferred) is distributed. Nonrecognition of gain also is to be denied in cases where the reorganization was principally a device for the distribution of the earnings and profits of the corporations which are parties to the reorganization.

Section 317 of the bill also adds a new section 113 (a) (23) to the code providing that, in the case of stock distributed in a spin-off, the basis of the new stock, and the old stock, respectively, in the shareholder's hands, is to be determined by allocating between the old stock and the new stock the adjusted basis of the old stock.

These provisions are to be effective with respect to taxable years ending after the date of the enactment of this bill, but are to apply only to distributions of stock made after that date.

16. Gain from sale or exchange of the taxpayer's residence (sec. 318)

Section 318 of the bill amends the present provisions relating to a gain on the sale of a taxpayer's principal residence. Existing law provides that when a personal residence is sold at a gain the difference

between its adjusted basis and the amount received for its sale is taxable as a capital gain.

The bill provides that when the sale of the taxpayer's principal residence is followed within a period of 1 year by the purchase of a substitute, or when the substitute is purchased within a year prior to the sale of the taxpayer's principal residence, gain is to be recognized only to the extent that the selling price of the old residence exceeds the cost of the new one. Thus, if a dwelling purchased in 1940 for \$10,000 is sold in 1951 for \$15,000, there would ordinarily be a taxable gain of \$5,000 under existing law. Under the bill no portion of the gain is to be taxable provided a substitute "principal residence" is purchased by the taxpayer within the stated period of time for a price of \$15,000 or more. If the replacement cost is less than \$15,000, say \$14,000, the amount taxable as gain is to be \$1,000.

The provision applies to cases where one residence is exchanged for another, where a replacement residence is constructed by the taxpayer rather than purchased, and where the replacement is a residence which had to be reconstructed in order to permit its occupancy by the taxpayer. The bill provides that in the case of the construction of a new house the new house must be used as the taxpayer's principal residence within 18 months after the sale of the old house. In other cases the new house must be used as the principal residence within a year after the sale of the former residence.

In cases where the replacement is built or reconstructed, only so much of the cost is to be counted as an offset against the selling price of the old residence as is properly chargeable against capital account within a period beginning 1 year prior to the date of the sale of the old residence, and ending 18 months after such date in the case of construction of a new house, or 12 months after such date in the case of reconstruction of an existing house.

This special treatment is not limited to the "involuntary conversion" type of case, where the taxpayer is forced to sell his home because the place of his employment is changed.

The adjusted basis of the new residence is to be reduced by the amount of gain not recognized upon the sale of the old residence. Thus, if the replacement is purchased for \$19,000, the old residence cost \$10,000 and was sold for \$15,000, the adjusted basis of the new residence is to be \$19,000 minus \$5,000, or \$14,000. This is equal to the cost of the old residence plus the additional funds invested at the time the new residence is purchased. If the second residence had been purchased for \$14,000, so that \$1,000 gain on the sale of the old residence would be recognized, its basis would be \$14,000 minus \$4,000, or \$10,000.

For the purpose of qualifying a gain as a long-term capital gain the holding period of the residence acquired as a replacement in a set of transactions which qualify under the terms of the amendment is to be the combined period of ownership of the successive principal residences of the taxpayer.

The new provision extends to cases in which similar treatment is available under existing law under the involuntary-conversion provisions of section 112 (f). Such cases arise when a home is destroyed by fire or is lost by seizure or by the exercise of the powers of requisition or condemnation and the proceeds are invested in a replacement. In such cases the new provision, and not section 112 (f), is to apply.

The latter requires the tracing of the expenditure of the funds obtained as a result of the loss of the previous residence. Also, no relief is available under section 112 (f) in cases where the replacement is acquired before the actual condemnation or requisition of the previous residence.

The taxpayer is not required to have actually been occupying his old residence on the date of its sale. Relief is to be available even though the taxpayer moved into his new residence and rented the old one temporarily before its sale. Similarly, he may obtain relief even though he rents out his new residence temporarily before occupying it, if he occupies it within 1 year or 18 months, as the case may be, after the sale of his former residence.

The special treatment is to be available only with respect to one sale or exchange per year, except when the taxpayer's new residence is involuntarily converted, in which case he is to be treated as though a year had elapsed since the time of the previous sale of an old residence.

The ownership of stock in a cooperative apartment corporation is to be treated as the equivalent of ownership of a residence, provided the purchaser or seller of such stock uses the apartment which it entitles him to occupy as his principal residence.

Regulations are to be issued under which the taxpayer and his spouse acting singly or jointly may obtain the benefits of the bill even though the spouse who sold the old residence was not the same as the one who purchased the new one, or the rights of the spouses in the new residence are not distributed in the same manner as their rights in the old residence. These regulations are to apply only if the spouses consent to their application and both old and new residence are used by the taxpayer and his spouse as their principal residence.

Where the taxpayer's residence is part of a property also used for business purposes, as in the case of an apartment over a store building or a home on a farm, and the entire property is sold, the provision applies only to that part of the property used as a residence, including the environs and outbuildings relating to the dwelling but not those relating to the business operations.

These provisions apply to a trailer or houseboat if it is actually used as the taxpayer's principal residence.

In cases where there is an unreported taxable gain on the sale of the taxpayer's residence, either because he did not carry out his intention to buy a new residence or because some of the technical requirements were not met, the period for the assessment of a deficiency is extended to 3 years after the taxpayer has notified the Commissioner either that he has purchased a new residence, or that he has not acquired or does not intend to acquire a new residence within the prescribed period of time.

The benefits of the bill will apply to the sale of a taxpayer's principal residence made after December 31, 1950.

17. Percentage depletion (sec. 319)

Under existing law depletion based on cost is available to all mining industries and in addition percentage depletion is available to oil, gas, sulfur, metal mines, and certain nonmetallic minerals. The allowable rate of percentage depletion is 5 percent in the case of coal, and 15 percent in the case of the other nonmetallic minerals except sulfur which is allowed 23 percent.

Section 319 of the bill sets up a new group of minerals to which percentage depletion is available at the rate of 5 percent. This rate is extended to the following substances none of which are presently entitled to percentage depletion: sand, gravel, slate, stone (including pumice and scoria), brick and tile clay, shale, oyster shell, clam shell, granite, marble, sodium chloride, and, if from brine wells, calcium chloride, magnesium chloride, and bromine.

Coal is increased from its present 5-percent rate to 10 percent.

The bill adds a 10-percent rate for wollastonite, asbestos, calcium carbonates other than marble and oyster and clam shell, perlite, and the magnesium compounds dolomite, brucite, and magnesite or magnesium carbonate.

The bill adds to the list of nonmetallic minerals for which percentage depletion is available at a 15-percent rate the following substances not now receiving percentage depletion: borax, fuller's earth, tripoli, refractory and fire clay, quartzite, aplite, garnet, diatomaceous earth, and metallurgical and chemical grade limestones.

The bill makes a technical revision in the 15-percent depletion provisions of present law. The latter includes at the 15-percent rate "thenardite (from brines or mixtures of brine)." The bill eliminates the parenthetical limitation.

The amendments made by this section of the bill apply to taxable years beginning after December 31, 1950.

18. Redemption of stock to pay death taxes (sec. 320)

The Revenue Act of 1950 amended section 115 (g) of the code to provide that the redemption of stock in a decedent's estate in an amount not in excess of the estate, inheritance and succession taxes (including interest) on the estate is, in certain cases, not to be treated as a taxable dividend. Among other requirements, this provision is limited at present to cases where the value of the stock in the corporation comprises more than 50 percent of the value of the net estate of the decedent.

Section 320 of the bill makes the benefits of section 115 (g) applicable to cases where the stock comprises more than 35 percent of the value of the decedent's gross estate.

This amendment will be applicable only to amounts distributed on or after the date of enactment of the bill.

19. Individuals earning income abroad (sec. 321)

Section 116 (a) of the code exempts from income tax citizens of the United States who are bona fide residents of a foreign country with respect to income earned outside the United States, and disallows deductions chargeable against this income.

The exclusion is allowed only with respect to an "entire taxable year" with respect to which the individual is a bona fide resident of the foreign country. Thus, exemption is denied an individual in his first year abroad unless he becomes a bona fide resident of the foreign country as of January 1. Section 321 of the bill changes this by granting an additional exclusion with respect to "an uninterrupted period which includes an entire taxable year" with respect to which an individual was a bona fide resident of a foreign country.

In addition, the term "bona fide resident" abroad has been construed quite strictly with the result that many persons who have gone abroad to work even for a relatively long period of time have been un-

able to meet the test of a "bona fide resident" of a foreign country. The bill adds a paragraph to section 116 (a) of the code providing that income earned abroad by a citizen of the United States who is present in a foreign country or countries for 17 out of 18 consecutive months is to be excluded from income, and that deductions chargeable to such income is to be disallowed in computing his Federal income tax.

These two changes made by the bill are effective with respect to taxable years beginning after December 31, 1950.

The bill also amends section 1621 (a) (8) (A) of the code to provide that there is to be no withholding by the United States where it is reasonable to believe that the income is paid to a person who will qualify for the exclusion on the basis of presence in a foreign country for 17 out of 18 consecutive months or on the basis of bona fide foreign residence. In addition, it provides that there is to be no withholding of income taxes for the United States upon an amount earned for services performed in foreign country if withholding on that amount is required for a foreign country. These changes in the bill are effective as of January 1, 1952, with respect to wages paid on or after that date.

20. Offset of short- and long-term capital gains and losses (sec. 322)

Section 322 of the bill amends the treatment of the capital gains and losses of individuals provided by existing law. Present law excludes 50 percent of a long-term capital gain or loss from the computation of net capital gain, net capital loss and net income, but includes 100 percent of a short-term capital loss in such computations. As a result a \$1 short-term loss can wipe out a \$2 long-term gain.

Under the bill, long-term gains are included in gross income at 100 percent and a deduction from gross income is allowed equal to 50 percent of the amount by which the taxpayer's net long-term gain exceeds his net short-term loss. Thus, if a taxpayer has a net long-term gain of \$1,000 and a net short-term loss of like amount, no deduction is to be allowable. If the net long-term gain is \$2,000 and the net short-term loss is \$1,000, the deduction against gross income will be 50 percent of the excess of \$2,000 over \$1,000, or \$500. Hence the amount actually taxed as a long-term capital gain will be \$500. Under existing law the \$1,000 of short-term loss offsets the portion of the long-term gain included in the calculation of net income, and no tax liability exists.

Long-term losses, like long-term gains, are to be taken into account in full. Long-term losses will therefore offset short-term gains on a dollar-for-dollar basis, just as short-term losses will offset long-term gains. If the net long-term loss exceeds the net short-term gain, the unreduced excess will be offset against other income up to \$1,000. The net loss which is not absorbed in this manner will be carried forward as a short-term capital loss, whether arising out of short- or long-term operations.

The amendment applies only to taxable years beginning on or after the date of enactment of this act.

21. Sales of land with unharvested crops (sec. 323)

Section 117 (j) of the code provides, in effect, that a net gain from sales (including exchanges and involuntary conversions) of properties "used in the trade or business" of the taxpayer, including "real property" so used, if held more than 6 months is to be treated as a

capital gain. In the case of a net loss, it is treated as an ordinary loss. Where unharvested crops are sold with the land, or unripe fruit is sold together with the land and the trees, question has arisen as to the proper application of the present law to the unharvested crops or the unripe fruit.

Section 323 of the bill adopts the principle that sales (including exchanges and involuntary conversions) of land, together with growing crops, are not such transactions as occur in the ordinary course of business and provides that the gain from the sale of the crop in such cases is to be treated as a capital gain rather than ordinary income, while a loss from such a sale is to be treated as an ordinary loss. This is accomplished by applying section 117 (j) in the case of these sales. However, the bill provides that no deduction shall be allowed which is attributable to the production of such crops or fruit, but that the deductions so disallowed shall be included in the basis of the property for the purpose of computing the gain or loss from the sale.

The provisions of this section are applicable to sales or other dispositions occurring in taxable years beginning after December 31, 1950, except that deductions in years beginning prior to January 1, 1951, will be disallowed if they relate to sales or other dispositions made in taxable years beginning after that date.

22. Gains from sales of livestock (sec. 324)

Section 117 (j) of the code provides, in effect, that a net gain from sales (including exchanges and involuntary conversions) of "property used in the trade or business" of a taxpayer and held for more than 6 months is to be treated as a capital gain. In the case of a loss, it is to be treated as an ordinary loss. However, section 117 (j) states that this treatment is not to apply to "property of a kind which would be properly includible in the inventory of the taxpayer if on hand at the close of the taxable year, or property held by the taxpayer primarily for sale to customers in the ordinary course of his trade or business." In the case of farmers there has been considerable doubt as to whether all livestock held for draft, dairy, or breeding purposes is "property used in the trade or business," or whether in some cases the livestock should be deemed held "primarily for sale to customers in the ordinary course of his trade or business."

Section 324 of the bill amends section 117 (j) (1) to provide that the term "property used in the trade or business" includes livestock, regardless of age, held by the taxpayer for draft, breeding, or dairy purposes, and held by him for 12 months or more from the date of acquisition. Under the bill, the term "livestock" does not include poultry. Thus section 117 (j) will apply to livestock used for draft, breeding, or dairy purposes, whether old or young; and the holding period will start with the date of acquisition, not with the date the animal is put to such use.

The bill makes the amendment applicable with respect to taxable years beginning after December 31, 1941, except that the extension of the holding period from 6 to 12 months applies only in the case of taxable years beginning after December 31, 1950.

23. Coal royalties (sec. 325)

Section 325 of the bill extends to the recipients of coal royalties the capital gains treatment now available to timber under section 117 (k)

(2) of the code. Percentage depletion is not to be available in the case of these coal royalties. It is provided that the lessor's holding period is to run to the time the coal is mined.

The bill provides that these provisions shall be inapplicable to "income realized by the owner as a coadventurer, partner, or principal in the mining of such coal."

It is also made clear that the term "coal" includes lignite.

Because treatment of coal royalties as capital gains will automatically exclude such income from income subject to excess-profits tax, the bill provides conforming amendments to the excess profits tax law. Where the taxpayer corporation computes its excess profits credit by the income method, these royalties are to be excluded from the taxpayer's base period income. Similarly, for the purposes of computing the invested capital credit and computing capital changes, the lessor's interest in the coal property from which the royalties are derived is to be treated as an inadmissible asset.

It is also provided that in the case of the special surtaxes for personal holding companies (sec. 500 of the code) and the special surtaxes for corporations improperly accumulating surplus (sec. 102 of the code), coal royalties are to continue to be treated as under present law and not as capital gains.

Section 325 applies to taxable years ending after December 31, 1950, but only with respect to amounts received or accrued after that date.

24. Collapsible corporations (326)

Section 326 of the bill amends section 117 (m) of the code, which denies capital-gains treatment to the sale, exchange, or retirement of stock in a "collapsible corporation." It extends the application of this section to cases where the corporation is used to convert inventory profits into capital gains. Section 117 (m) was added to the code by the Revenue Act of 1950. The reports on the bill which became the Revenue Act of 1950 illustrated the intent of the provision by the case of a corporation organized for the production of a single motion picture. Upon the completion of the film, but prior to the realization by the corporation of any income therefrom, the corporation would be liquidated and its assets distributed. No tax would be paid by the corporation because it had realized no income. Each former shareholder would pay a tax upon the difference between the cost of his stock and the fair market value of his portion of the fair market value of the motion picture and any other assets so distributed. Prior to the Revenue Act of 1950 this gain might have been taxed as a long-term capital gain with a maximum effective rate of 25 percent; under the law as amended by that act the gain is now taxed as ordinary income. Section 117 (m) was drafted so as to apply only when a corporation was "formed or availed of principally for the manufacture, construction, or production of property."

Section 326 of this bill extends the application of section 117 (m) to corporations formed or availed of principally for the purchase of property which is inventory or stock in trade in the hands of the corporation. Thus it prevents the use of collapsible corporations as a means of converting into capital gains the profits on inventory and stock in trade. The procedure used is to transfer a commodity to a new or dormant corporation, the stock of which is then sold to the prospective purchaser of the commodity who thereupon liquidates

the corporation. In this manner the accretion in the value of the commodity, which in most of the actual cases has been whisky, is converted into a gain realized on the sale of stock of a corporation, thus giving rise to the possibility that it might be taxed as a long-term capital gain.

This amendment applies with respect to taxable years ending after August 31, 1951, but will only apply to gains realized after that date. The determination of the tax treatment of gains realized in taxable years beginning prior to September 1, 1951, will be made as if this section had not been enacted and without inferences drawn from the fact that the amendment made in this bill is not specifically retroactive and without inferences drawn from the limitations contained in section 117 (m) as amended by section 326 of the bill.

25. Dealers in securities (327)

Under existing law, dealers in securities are permitted to hold some securities as a personal investment. Gains or losses on those securities which are held by the taxpayer in his capacity as a dealer are treated as ordinary income. Capital gain or loss treatment is accorded the results of the sale of securities which the taxpayer holds as an investor. Existing law also permits the transfer of securities from such a taxpayer's investment account to his inventory account and vice versa with corresponding changes in tax liabilities.

Section 327 of the bill provides that in the case of a dealer in securities capital gains treatment is to be available only under certain specific conditions. The security in question must have been clearly identified in the dealer's records as "a security held for investment" within a period of 30 days after the date of its acquisition or after the date of enactment of the Revenue Act of 1951, whichever is later, and must not at any time thereafter have been held by the taxpayer "primarily for sale to customers in the ordinary course of his trade or business." Unless these terms are complied with, the gain on the sale of the security is to be taxed as ordinary income.

Ordinary loss treatment is not to apply where the security sold was, at any time after this section becomes applicable, clearly identified in the dealer's records as "a security held for investment."

This amendment will not affect the application of section 117 (i) of the code which provides, in the case of banks, that, if losses from the sale of all securities during a year exceed the gains, then the net loss shall be treated as an ordinary loss.

The amendment applies to sales or exchanges made more than 30 days after the date of enactment of this act.

26. Sale of property between spouses and between an individual and a controlled corporation (sec. 328)

Section 328 of the bill denies tax benefits available under existing law in certain cases where depreciable assets are sold by a taxpayer to his spouse or to a corporation controlled by him. The following is an example of the tax benefits in the case of the sale of depreciable property by a taxpayer to a controlled corporation: Assume that a taxpayer owns and operates a corporation engaged in retail trade, that he also owns as an individual the building used by this corporation and that the current value of the building is well in excess of its adjusted basis. If the building is sold to the corporation, a capital-gains tax will ordinarily be paid, but the building then has, in the hands of the

corporation, an adjusted basis which is greater than the basis in the hands of the individual shareholder by the amount of the gain realized on the sale to the corporation. The property being depreciable the corporation will then be able to write off the increase in the adjusted basis over the remaining life of the building. The resulting additional depreciation charges are an offset to ordinary income. Thus, in effect the immediate payment of a capital-gains tax has been substituted for the elimination, over a period of years, of the corporate income taxes on an equivalent amount. The differential between the capital-gains rate and the ordinary rates makes such a substitution advantageous when the sale may be carried out without loss of control over the asset because the corporation to which the asset is sold is controlled by the individual who made the sale.

A similar advantage is possible where such a sale is made between husband and wife.

Section 328 of this bill eliminates the tax advantage from such transactions by denying capital-gains treatment to the transferor with respect to sales or exchanges of depreciable property between a husband and wife, or between an individual and a corporation more than 80 percent of the outstanding stock of which is owned by the individual, his spouse and his minor children or minor grandchildren.

This provision is applicable to taxable years ending after April 30, 1951, but only with respect to sales or exchanges made after May 3, 1951.

27. Termination payments to employees (sec. 329)

Some employment contracts provide for payments to the employee, after the employment period, based on a share of future profits or a percentage of future gross receipts. Such payments when received are taxed under present law as ordinary income, since they are held to be in the nature of payments of additional compensation. However, if the employee chooses to receive a lump-sum payment in lieu of the contract rights upon termination of his employment, the entire lump sum is included in one year's income.

Section 329 of the bill provides, with certain restrictions, for capital-gain treatment of amounts received by an employee, upon termination of his employment, in exchange for his release of all of his rights to receive a percentage of future profits or receipts. This provision is limited to cases where the taxpayer has been employed for more than 20 years, has held such rights to future profits for at least 12 years during his term of employment and has the right to receive a percentage of future profits for life or for a period of 5 years or more after the termination of his employment. It is not necessary that the contract specify that the payments be for life or for more than 5 years. It is only necessary that the effect of the contract is to give the taxpayer the report to such future profits for life or for a period or more than 5 years.

This provision is effective with respect to taxable years beginning after December 31, 1950.

28. Net operating loss deductions (sec. 330)

The Revenue Act of 1950 provided that the net operating loss for a year may be carried back to offset income of the preceding year and may be carried forward to offset income of the 5 succeeding years. This provision was made effective for losses in 1950 and later years.

Losses in years prior to 1950 under present law may be carried back 2 years and carried forward 2 years. The effect of the change in the 1950 act was to permit losses in 1950 and subsequent years to be applied to offset possible income in six other years, whereas losses in 1949 and earlier years could be applied to offset possible income in four other years.

Section 330 of the bill permits net operating losses in 1948 and 1949 to be carried forward 3 years. The effect of this change is to permit losses in these 3 years to be applied to offset income in five other years—two prior years and three subsequent years.

Section 330 applies only to taxable years beginning after December 31, 1947, and before January 1, 1950. Thus a taxpayer with a fiscal year ending November 30, 1948, would not be entitled to the benefits of this section for a net operating loss incurred in such fiscal year. In the case of a fiscal year ending November 30, the 2 years of operating losses to which the section will apply are the fiscal years ending November 30, 1949, and November 30, 1950. The relief is extended to both individual's and corporations. In the case of a corporation commencing business after December 31, 1945, a 3-year carry-over is also allowed for a taxable year beginning after December 31, 1946, and before January 1, 1948.

29. Restricted stock options (sec. 331)

The Revenue Act of 1950 added a new section 130A to the code, which provides that the granting to employees of certain types of stock options is not to give rise to taxable income to the recipient. To be excluded under this provision the option must fall within a defined category of "restricted stock options."

Section 130A requires that to qualify as a "restricted stock option" the option price at the time of the granting must be 85 percent or more of the fair market value of the stock. In many cases, the granting of stock options is subject to ratification by the corporation's stockholders. Thus, at the time of the action by a corporation's board of directors the option may be fully qualified as to the 85-percent limitation, but because of the delays incident to action by a corporation's shareholders, the fair market price may have so changed by the time of their ratification that the option no longer qualifies under the statute.

Section 331 of the bill provides that the date of the granting of a restricted stock option which is subject to stockholder ratification shall, if approved by the stockholders, be deemed to have been granted as of the date of action by the board of directors.

This amendment is to be effective as if it had been enacted as part of the stock option provision of the Revenue Act of 1950.

30. Foreign tax credit for taxes paid by a foreign corporation (sec. 332)

Existing law permits a domestic corporation, owning the majority of the voting stock of a foreign corporation, to claim a foreign tax credit for income taxes paid by the foreign corporation to a foreign government with respect to the proportion of its profits which are paid as dividends to the domestic corporation. Section 332 of the bill amends section 131 (f) (1) of the code to provide that the foreign tax credit is to be allowed if the American corporation owns 10 percent or more of the voting stock of the foreign corporation.

This provision is effective with respect to dividends received during taxable years beginning after December 31, 1950.

Under present law if a foreign subsidiary of an American corporation owns all of the voting stock of another foreign corporation, the dividends received by the American parent with respect to the earnings of the second subsidiary are eligible for a foreign tax credit, assuming the first subsidiary meets the tests previously discussed. Section 332 of the bill extends the foreign tax credit to apply in the case of dividends received by an American parent corporation from a foreign corporation (if holding 10 percent of the stock of this corporation) out of earnings which that foreign corporation has in turn received from another foreign corporation in which it owns 50 percent or more of the voting stock.

This provision is effective with respect to dividends received by a foreign corporation from another foreign corporation during taxable years beginning after December 31, 1950.

31. Information at source on payments of interest (sec. 333)

Under present law the furnishing of information at the source is required on all payments of interest of \$600 or more. Section 333 of the bill removes this \$600 requirement with respect to interest and gives the Secretary of the Treasury the discretion to require information returns on interest payments of any amount. No change is made in the provisions of present law which authorize that payments of dividends in any amount be reported at the discretion of the Secretary.

32. Abatement of income taxes for certain members of the Armed Forces dying in combat zones or as a result of injuries received in such zones (sec. 334)

Individuals dying while in active service during World War II as members of the military or naval forces of the United States or other United Nations were forgiven their income tax with respect to the year of death and the prior year. They also were relieved of unpaid income taxes at the time of their death.

Section 334 of the bill provides similar treatment for members of the Armed Forces of the United States dying while serving in combat zones or while hospitalized as a result of wounds, disease, or injuries incurred while serving in combat zones.

The bill provides for the forgiving of income tax for the year of death of such individuals and for prior taxable years ending after the commencement of hostilities in Korea. Also, such individuals are relieved of any income taxes (including interest and additions to tax) for any other year which were unpaid at the date of their death. The provision is effective with respect to individuals dying after June 24, 1950 and prior to January 1, 1954.

33. Stock distributions of profit-sharing plans (sec. 335)

Section 165 (b) of the code provides for the taxation of distributions to employees from exempt pension and profit-sharing funds. As a rule both the employee and the employer contribute to such funds. The amounts so contributed are then invested, frequently in the stock of the employer company. If the total distributions payable with respect to any employee are paid to him within one taxable year on account of his separation from service, the employee is taxable at capital gain rates upon the excess of the total distributions over the

total of amounts contributed by him. The value of the distribution for tax purposes under present law is the sum of the cash received and the market price of any stock or other securities at the time of distribution.

Section 335 of the bill provides that in the case of such distributions consisting of stock in the employer corporation the appreciation in the value of the stock which occurred since the stock was deposited in the fund is not to be subject to capital-gain tax until the employee sells the stock, rather than at the time it is distributed to him as under present law. This amendment makes no change in the present tax treatment of that portion of the value of such stock which does not represent appreciation in value.

This amendment applies to distributions made after December 31, 1950.

34. Life-insurance companies (sec. 336)

In section 401 of the Revenue Act of 1950, the formula used for computing the net income of life-insurance companies was amended, the action being effective only for 1949 and 1950. Under this stopgap formula, as used for 1949 and 1950, the taxable income of each life-insurance company relating to its life-insurance business is determined by deducting from its net investment income a percentage of that income. To that amount is added $3\frac{1}{4}$ percent of the unearned premiums and unpaid losses resulting from any accident and health business. Appropriate adjustments are made with respect to exempt interest and the credit for dividends received. The normal tax is obtained by applying the ordinary corporation normal tax rate to that entire amount, and the surtax is obtained by applying the ordinary surtax rate to that portion in excess of \$25,000. The percentage to be deducted in arriving at the taxable income is the same for all life-insurance companies, and is determined and proclaimed for each year by the Secretary of the Treasury, by comparing the aggregate amount needed in the previous year by all life-insurance companies to meet their life-insurance policy obligations, and any other interest on indebtedness, with the aggregate net investment income of all life-insurance companies less $3\frac{1}{4}$ percent of the unearned premiums and unpaid losses of those companies which had health and accident insurance. For 1950 this percentage, based on 1949 data, was slightly more than 90 percent; for 1951, based on 1950 data, it would probably be between 87 and 88 percent.

Section 336 of the bill substitutes a different formula for the taxation of life insurance companies in 1951. Under it the income tax is in general to be $3\frac{3}{4}$ percent of so much of the net investment income of each company as is not in excess of \$200,000, and $6\frac{1}{2}$ percent of the amount over \$200,000. It will be noted that $3\frac{3}{4}$ percent of \$200,000 is approximately the same as 27 percent of \$25,000; and that $6\frac{1}{2}$ percent of net investment income is approximately the same as 52 percent of 12 to 13 percent (100 percent less 88 or 87 percent) of the entire net income. For those companies with accident and health insurance an appropriate adjustment is made so that the tax computed at the $3\frac{3}{4}$ - and $6\frac{1}{2}$ -percent rates is approximately the same as a tax at the ordinary 27- and 52-percent rates on the income (determined as before) from that part of their business. As under the present stopgap formula, appropriate adjustments are made for exempt interest and the credit for dividends received.

It is expected that in 1951 a number of companies, mostly small, will not earn their interest requirements, or will earn an amount only slightly in excess of their requirements. Under the stopgap formula these companies would have paid ordinary corporation normal taxes and surtaxes on the same percentage of their net investment incomes as the other companies whose net investment income materially exceeded their policy requirements. Under the bill a measure of relief is accorded such companies: those with net investment incomes which are less than their policy requirements will, in general, pay a tax at $3\frac{3}{4}$ or $6\frac{1}{2}$ percent on only 50 percent of their net investment incomes, while those with net investment incomes of from 100 to 105 percent of their policy requirements will pay a tax at the rate of $3\frac{3}{4}$ or $6\frac{1}{2}$ percent on amounts varying from 50 to 100 percent of their net investment incomes. With respect to companies which also do an accident and health insurance business, in determining whether or not their net investment income is less than that required to meet their life-insurance-policy requirements, or not more than 105 percent of that amount, the total net investment income is reduced by one-half of $3\frac{3}{4}$ percent of their unearned premiums and unpaid losses on the accident and health policies.

The application of the new formula is limited to taxable years beginning in 1951.

35. Venture capital companies (sec. 337)

Section 337 of the bill will permit certain so-called venture capital companies to qualify as regulated investment companies. Under Supplement Q of the code, regulated investment companies which distribute currently at least 90 percent of their income, and meet certain other tests set out in section 361 (b) of the code, are not taxed upon amounts distributed to shareholders. One of these tests is that the company must not invest more than 50 percent of its assets in companies in which it holds more than 10 percent of the value of the voting securities. This rule has the effect of denying special treatment to companies which undertake to control the enterprises in which the bulk of their funds are placed. It clearly excludes a holding company in the ordinary sense of the word.

Section 337 of the bill amends section 361 of the code to permit venture capital companies to qualify as regulated investment companies. This is accomplished by waiving, under certain conditions, the 10 percent limitation as to certain types of holdings. To qualify for this exception the investment company must obtain a certification from the Securities and Exchange Commission which states that the investment company is a registered management investment company as defined in the Investment Company Act of 1940 and that its principal business is the furnishing of capital to companies principally engaged in the development or exploitation of inventions, technological improvements, new processes or products not previously generally available. This certification will be made under regulations to be issued by the Securities and Exchange Commission.

The bill also provides that the 10 percent rule shall not be waived in the case of an investment company which has more than 25 percent of its funds invested in companies, in which it has an interest of more than 10 percent and the securities of which it has held for more than 10 years.

All the other limitations on regulated investment companies now imposed under Supplement Q are retained.

Section 337 is effective with respect to taxable years beginning after December 31, 1950.

36. Exchanges and distributions under SEC orders (sec. 338)

Supplement R of chapter 1 of the Code provides, in general, that gain shall not be recognized to a corporation transferring property to another corporation which is a member of the same system group if the transfer is under order of the Securities and Exchange Commission. A "system group" is there defined as a chain of corporations connected with a common parent through 90-percent ownership of each class of stock other than stock preferred both as to dividends and assets.

Section 338 of the bill amends supplement R to provide that, in addition to the present definition of a system group, corporations be permitted to qualify as a system group if the parent owns 90 percent of each class of stock other than preferred stock and other than stock which is preferred as to dividends but not as to assets if the value of such stock is less than 1 percent of the aggregate value of all classes of nonpreferred stock.

This amendment is effective with respect to taxable years affected by an exchange or distribution made after December 31, 1947.

37. Family partnerships (sec. 340)

Section 340 of the bill deals with the tax treatment of the so-called family partnership. It adds to the definition of partner in section 3797 (a) of the code a new sentence providing that for Federal income tax purposes a person is to be recognized as a partner if he owns a capital interest in a partnership in which capital is a material income producing factor, whether or not this capital interest was acquired by purchase or gift from any other person. Thus a gift of a family partnership interest is to be respected regardless of the motives which actuated the transfer. The amendment leaves the Commissioner and the courts free to inquire in any case whether the donee or purchaser actually owns the interest in the partnership which the transferor purports to have given or sold him.

The provision also adds a new section 191 to the code, dealing with the allocation of partnership income for income-tax purposes. This provides that in the case of any partnership interest created by gift the allocation of income, according to the terms of the partnership agreement, is to be controlling for income-tax purposes except when the shares are allocated without proper allowance of reasonable compensation for services rendered to the partnership by the donor, and except to the extent that the allocation to the donated capital is proportionately greater than that attributable to the donor's capital. In such cases a reasonable allowance will be made for the services rendered by the partners, and the balance of the income will be allocated according to the amount of capital which the several partners have invested. However, the distributive share of a partner in the earnings of the partnership will not be diminished because of absence due to military service.

When more than one member of a family is a member of a partnership, all interests purchased by one member of the family from another will be treated as though the transfer were made by gift. For this

purpose the family of an individual includes his spouse, ancestors, lineal descendants, and any trust for the primary benefit of such persons.

The amendment made by the bill is applicable to taxable years beginning after December 31, 1950, with the express intention that no inferences with respect to taxable years beginning prior to January 1, 1951, are to be drawn from the enactment of the amendment. If the taxable year of any family partner is different from that of the partnership the amendment will apply to a fiscal year of the partnership beginning in 1950 if it ends within fiscal years of all the family partners which begin in 1951, but it will not apply if it ends within a fiscal year of any family partner which began in 1950.

38. War losses (sec. 341)

Section 127 of the code, in general, authorizes war loss deductions for properties in enemy hands when the United States entered World War II in 1941, for properties which later came under enemy control, and for properties destroyed or seized in the course of military or naval operations. This deduction is limited to the taxpayer's depreciated cost or other basis of the property. Section 127 also provides that if any of the property was recovered, the fair market value of the recovered property, not the amount deducted, is to be taxed as ordinary income to the extent that the deduction resulted in a reduction of tax.

Where only one property is involved, if the fair market value of the recovered property exceeds the amount of the deduction, the value of the recovered property is includible in income only to the extent that the deduction resulted in a reduction in tax. Where the war loss embraces more than one property where war loss deductions have been taken for two or more properties and only one of these properties is recovered, and if the recovered property has appreciated in value, the deduction previously taken not only with respect to this property but also with respect to the property not recovered is taken into consideration in determining how much of the fair market value of the property recovered represents a previous reduction in tax.

Section 341 of the bill amends section 127 of the code to provide that, at the election of the taxpayer, in the case of war loss recoveries the value of the recovered property will not be included in gross income for the year of the recovery; however, in such cases the tax for the year in which the deduction was taken (or the tax for another year affected by a carry-over or carry-back) is to be recomputed by reducing the deduction by the amount of the recovered property, taken at its depreciated cost or other basis on the date of the loss or its fair market value on the date of the recovery, whichever the taxpayer chooses, and the increase, if any, in the tax so resulting is to be added to the tax for the year of the recovery.

Cases have also arisen where war losses have been deductible but no deduction was claimed. In such cases, if other war losses were deducted with a tax benefit, section 127 of the code operates to require the fair market value of the property on the date of the recovery to be included in income in the year of the recovery to the extent not in excess of the beneficial deductions for other war losses. Under section 341 of the bill there would be no tax in the year of the recovery with

respect to property for which no deduction was claimed in the year of the loss, if the taxpayer elects the new procedure.

If the taxpayer elects to have the new procedure apply to one of several recoveries it must be applied to all other recoveries, past or future, even though a refund or deficiency for a prior year would otherwise be barred. If, as the result of this election, the basis of property recovered in any year is changed the effects of that change in depreciation, base period income, etc., in subsequent years must be reflected in changed tax liabilities, even though those years are otherwise closed.

No interest is to be paid or assessed on refunds or deficiencies arising from this provision.

In general, the election to use the new procedure must be made before January 1, 1953, except that it may be made after December 31, 1952, if there is a recovery after that date.

This provision is applicable to taxable years beginning after December 31, 1941.

39. Mine exploration expenditures (sec. 342)

Under present law, expenditures for ascertaining the location, extent, and quality of mineral deposits cannot be deducted (unless such expenditures produce no useful results, in which case they can be deducted as in the case of any other loss), but must be capitalized. Amounts so capitalized can be recovered for tax purposes only through depletion allowances. If the depletion allowance is based upon a percentage of gross income from the property, this deduction is the same whether a large or a small sum was spent for exploration.

Section 342 of the bill provides that with respect to expenditures made to ascertain the existence, location, extent, or quality of any deposit of ore or other mineral (other than oil and gas), prior to the development stage of a mine, the taxpayer (whether exploring for one or more mines) may elect to deduct in any taxable year any amount up to \$75,000 paid or incurred in that year; or he may defer any amount up to \$75,000 not deducted in the current year, and deduct that amount ratably as the minerals discovered or explored as the result of the expenditure are sold. Any taxpayer may treat such expenditures made in any 4 years, up to \$75,000 per year, as deductible in either of these ways; after he has done this for 4 years, additional expenditures for exploration must be capitalized as under present law. Amounts so deducted will be a substitute for cost depletion based on such expenditures, but the allowances for depletion based upon a percentage of gross profit will not be affected.

The amendments made by this section of the bill is to apply to taxable years ending after December 30, 1950.

40. Pensions of life insurance agents (sec. 343)

Under section 165 of the code, payments made from an employees' retirement fund are taxable to the recipient as received. Full time life insurance agents have been denied the benefits of this section because of a ruling that they are not technically "employees" for the purposes of the provision. As a result the entire lump-sum value of the pension in excess of any amount contributed to the fund by the employee is taxable as income of the agent in the year he retires, when his right

to his share of the company's contributions becomes nonforfeitable. Section 343 of the bill amends section 3797 (a) of the code to extend the benefits of section 165 to full time life insurance agents who are employees for social security purposes.

This amendment is effective with respect to taxable years beginning after December 31, 1938.

41. Nonbusiness casualty losses (sec. 344)

Under existing law the "net operating loss" which an individual may carry backward or forward to offset the income of another taxable year is limited to a net loss from the operation of his trade or business; net losses with respect to his nonbusiness properties are not included. Section 344 of the bill provides that all losses arising from fires, floods, storms, and other casualties, or from theft, may be considered in computing the net operating loss, whether or not the property destroyed or damaged was used in the individual's trade or business. The provisions apply to such losses sustained after December 31, 1950.

42. Abatement of tax on certain irrevocable trusts (sec. 345)

In the case of a member of the military or naval forces of the United States or of one of the other United Nations who died while in active service after December 6, 1941, and before January 1, 1948, it was provided under prior law that any income tax for the year of his death, or any income tax for any prior year which was unpaid at the time of his death, should be abated. Section 345 of the bill deals with cases where such individuals were not receiving certain income directly, and so were not liable for income tax on that income, but were nevertheless beneficiaries of trusts which were accumulating income intended to be for their ultimate benefit, or for the benefit of their estates or close relatives. The bill provides that in such a case the trust shall be allowed to deduct income so accumulated if it was earned by the trust during the time the beneficiary was in active service. The effect is that any tax which the trust has not yet paid, or which, if paid, may still be refunded, on income which was accumulated for the benefit of the deceased individual during the period when he was in active service, will be abated or refunded.

43. Nondistributable income of personal holding companies (sec. 349)

Under subchapter (A) of chapter 2 of the code, personal holding companies are subject to a special surtax of 85 percent of their "undistributed subchapter (A) net income" (75 percent on the first \$2,000). Section 504 provides for certain deductions in computing the income subject to this special personal holding company tax, among which is a deduction for dividends paid out. This surtax is applicable under present law even though certain other Federal laws prevent the distribution of dividends by the holding company.

Section 349 of the bill provides, in effect, that a deduction shall be allowed in computing the undistributed subchapter (A) net income for amounts which cannot be distributed without violating the Trading With the Enemy Act of October 16, 1917, as amended, or the First War Powers Act of 1941, or amounts subject to lien in favor of the United States.

This amendment is effective for taxable years beginning after December 31, 1939.

44. Back mail pay of railroads (sec. 611)

After an application for increased mail pay made by the railroads in February 1947, the Interstate Commerce Commission in December 1947, ordered an interim increase of 25 percent in mail-pay rates effective after February 19, 1947, pending further investigation. Amounts represented by this increase were reported for tax purposes by the railroads in the years in which the services were rendered. On December 4, 1950, the ICC awarded the railroads \$312 million in back mail pay for the period from February 19, 1947, through December 31, 1950. Of this amount, about \$160 million represented the 25-percent increase previously granted on a temporary basis with respect to the services rendered in the period 1947-50, and about \$158 million represented an additional increase with respect to those same services.

Section 611 of the bill provides that the additional payments authorized by the December 4, 1950, order are to be included in income for the years in which the railroads rendered the services for which the additional payments were made. It is specifically provided that no interest shall be due with respect to any period prior to July 1, 1951, for deficiencies resulting from the inclusion of the additional payments in the back years.

The same section of the bill also provides that, if any retroactive award of air mail pay to a taxpayer is required to be included in the taxpayer's income for the year or years in which the mail was carried, no interest shall be due, with respect to any period prior to 30 days after the award is granted, for tax deficiencies resulting from the retroactive inclusion of the mail pay.

45. Preferred stock of public utilities (sec. 612)

Section 612 of the bill amends section 15 (a) of the code which permits public utilities furnishing telephone service, electrical energy, gas, or water to take a partial credit against net income for dividends paid on preferred stock originally issued before October 1, 1942. The existing credit is designed to give these public utilities a tax saving equal to 14 percent of the amount of the preferred stock dividends. The bill amends section 15 (a) with respect to taxable years beginning before April 1, 1951, to make the intercorporate dividends-received credit available in the case of dividends on preferred stock of public utilities if the special dividends paid credit for public utilities provided by section 26 (b) has not been received by the utility.

46. Postponement of due date for returns of China Trade Act corporations (sec. 614)

Under present law China Trade Act corporations are allowed a credit against their income for the net income derived from sources within China with respect to the portion of the stock of the corporation held by Chinese or American shareholders. Also, the corporation must distribute to those shareholders an amount at least equal to the amount of the income tax reduction resulting from the credit in order to receive the full credit. As a result of hostilities and unsettled conditions generally in the Far East, it is impossible in many cases for

corporations doing business in China to make a distribution of any earnings derived from China or even to know the size of such earnings. Section 614 of the bill amends present law to provide that the Secretary of the Treasury may postpone up to the end of 1953 the due date for the paying of any income tax and the filing of the return, with respect to years beginning and ending in the period January 1, 1949, to September 30, 1953, if he deems such deferment reasonable under the circumstances. Since the requirement, that in order to receive the full credit the distribution of earnings derived from China must at least equal the income tax which otherwise would have been paid, need not be met prior to the time the taxes are due and payable, the postponement of the due date also has the effect of permitting the taxpayer to postpone the distribution of earnings.

V. STRUCTURAL CHANGES IN THE EXCESS PROFITS TAX

In general, the following excess profits tax amendments are effective retroactively to the time the excess profits tax became effective.

It is estimated that the excess profits tax amendments discussed below will decrease revenues by \$107 million in a full year of operation.

1. *Special ceiling rate for new corporations (sec. 501)*

Section 501 of the bill provides a series of special ceiling rates available only to new corporations. As indicated in part II B of this summary, the bill provides a new type of ceiling rate of 18 percent with respect to excess profits tax liability for all corporations. For ordinary corporations, this rate is to apply with respect to years beginning after March 31, 1951. On a similar basis, but retroactive to include 1950, the first year the excess profits tax was in effect, the bill provides the following series of ceiling rates applicable to excess profits net income which are to be available to certain new corporations, with respect to the first \$300,000 of their excess profits tax net income:

	Percent
In the first year of a new corporation's business.....	5
In the second year of a new corporation's business.....	5
In the third year of a new corporation's business.....	8
In the fourth year of a new corporation's business.....	11
In the fifth year of a new corporation's business.....	14

For that part of the excess profits net income in excess of \$300,000, new corporations less than 6 years old are to be subject to a ceiling rate of 15 percent with respect to 1950, 17½ percent with respect to the calendar year 1951, and 18 percent with respect to taxable years beginning after March 31, 1951. Other corporations are also subject to the 17½-percent rate in the calendar year 1951 and the 18-percent rate with respect to taxable years beginning after March 31, 1951, but in their cases these rates are applied to their entire excess profits net income. In 1950 these other corporations in effect are subject to a ceiling rate on their entire excess profits net income which is at least as high as the 15-percent rate applicable to new corporations with respect to their excess profits tax net income in excess of \$300,000.

These special ceiling rates, together with the effective income tax rates, will have the effect of providing for 1952 the following maximum

effective rates of income and excess profits taxes for the excess profits net income levels shown:

Normal tax, surtax and excess profits net income (before excess profits credit and unused credit carry-over)	Normal tax and surtax effective rates under conference bill (percent)	Maximum effective rate of income and excess profits taxes				
		First and second year, 5 percent	Third year, 8 percent	Fourth year, 11 percent	Fifth year, 14 percent	Sixth and subsequent years, 18 percent
\$65,000.....	43.54	48.54	51.54	54.54	57.54	61.54
\$75,000.....	44.67	49.67	52.67	55.67	58.67	62.67
\$100,000.....	46.50	51.50	54.50	57.50	60.50	64.50
\$200,000.....	49.25	54.25	57.25	60.25	63.25	67.25
\$300,000.....	50.17	55.17	58.17	61.17	64.17	68.17

In determining how many years a new corporation has been engaged in business, the bill describes certain cases in which a new corporation is considered to be as old as the oldest of its predecessor corporations, or as old as the oldest of the other corporations with which it or its shareholders are related. In general, these cases include the following:

1. Where assets are acquired by the new corporation from another corporation in a tax-free exchange;

2. Where a substantial amount of assets are acquired by the new corporation from another corporation, if at least half the stock in both corporations is owned by the same stockholders;

3. Where a substantial part of the assets of another corporation were distributed by it and acquired by the new corporation, if at least half the stock in both corporations was owned by the same stockholders;

4. Where the same stockholders control both the new corporation and another corporation which was engaged in a similar business; and

5. Where the new corporation purchased a business of a "selling corporation" in a taxable acquisition of the type described in the new part IV of the excess profits tax subchapter.

Under the bill a new corporation is considered to be as old as any corporation with which it is indirectly related, as well as directly related, as described above. With respect to assets acquired by the new corporation prior to December 1, 1950, numbers 1, 2, 3, and 5, above, apply only if the assets acquired (or their replacements) amounted to 20 percent or more of the total assets of the new corporation on December 1, 1950.

The special ceiling rates for new corporations are not available to corporations which receive more than 50 percent of their gross income (not counting dividends and capital gains) from contracts or sub-contracts which are of the types subject to renegotiation.

2. Management and technical service fees (sec. 502)

Section 502 of the bill provides an exclusion from excess profits tax for management and technical service fees paid to domestic corporations by certain affiliated foreign corporations in return for information and other services furnished in connection with the production or improvement of products of the type manufactured by the domestic corporation. The exemption is limited to fees received from foreign

corporations in which the domestic corporation owns at least 10 percent of the stock and the exclusion applies only if such remuneration constitutes income derived from sources without the United States.

The bill makes a conforming amendment in that it excludes these earnings of domestic corporations from their base-period earnings. Also any expenses attributable to the production of this type of income are disallowed as deductions for excess profits tax purposes.

3. Base period of fiscal-year corporations (sec. 503)

The present law provides certain variations in the base period with respect to corporations on a fiscal-year basis. Taxpayers with fiscal years ending after December 31, but before April 1, use as their base period 48 months ending with their last taxable year ending prior to April 1, 1950. For example, a taxpayer with a March 31 fiscal year has as its base period the 48 months from April 1, 1946, through March 31, 1950. A somewhat different procedure is followed in the case of taxpayers whose fiscal years end after March 31 and before December 31. Such taxpayers are required to use the 48-month period beginning on January 1, 1946, and ending on December 31, 1949.

Section 503 of the bill provides that, in lieu of its regular base period, any taxpayer with a fiscal year beginning before January 1, 1950, and ending after March 31, 1950, may, for purposes of the general average method of computing the excess profits credit, use the 48 months ending with March 31, 1950. However, if this latter period is used, the excess profits tax net income for January, February, and March of 1950 is to be computed by the use of the "weighted excess profits net income" as defined in section 435 (e) (2) (E). The "weighted excess profits net income" is 100 percent of the excess profits net income for a taxable year ending on or before June 30, 1950, 90 percent for a taxable year ending in July, August, or September 1950, and 80 percent for a year ending in October or November 1950.

4. Extension of growth alternative to new corporations (sec. 504)

New corporations are not entitled to the growth alternative under section 435 (e) of present law because this relief is available only to corporations which commenced business before the beginning of their base period (ordinarily January 1, 1946, and in no case later than April 1, 1946).

Section 504 of the bill permits corporations which commenced business during the base period to use the growth alternative in computing their excess profits credit based on income if they meet the other eligibility requirements in sec. 435 (e). The amendment will not apply to corporations which commenced business after the end of the base period since the eligibility tests under the growth alternative are written in terms of base-period experience. However, such corporations formed in the excess profits tax period will ordinarily have the benefits of the lower over-all tax ceilings provided by section 501 of the bill for new corporations.

Corporations formed after 2 years of the base period had elapsed, and before the end of the base period, ordinarily will automatically become eligible for the growth alternative. This is because the eligibility requirements of section 435 (e) (1) (A) (other than the

total asset limitation) are based upon a comparison of the taxpayer's total payroll, or gross receipts, in 1946 and 1947 with its total payroll, or gross receipts, in 1948 and 1949. Therefore, corporations formed in the latter half of the base period (except for corporations which were "acquiring corporations" prior to July 1, 1950, in tax-free exchanges of the types described in pt. II of the excess profits tax subchapter) must automatically meet the tests of growth in those respects because such corporations had no payrolls and no gross receipts in the first half of the base period. For corporations which commenced business prior to the middle of the base period (ordinarily January 1, 1948), qualification for the growth formula will not be automatic as in the case of the corporations described above, but should prove relatively easy to meet in most cases since total payroll or gross receipts for two full years of the business in the second half of the base period will be compared with payroll or gross receipts for something less than two full years of business in the first half of the base period. This ease of qualification will diminish as the corporation's starting date approaches the beginning of the base period until for a corporation commencing business on the first day of the base period it will be on substantially the same footing as those old corporations now entitled to the growth alternative.

New corporations formed before the end of the base period which meet the eligibility requirements of section 435 (e) (1) (B) will also be entitled to use the special growth alternative provided in section 435 (e) (2) (G). However, in order to qualify under that provision a corporation will have to have been in existence for all of 1949 and at least part of 1948 in order to meet the entrance requirement that its excess profits net income for the calendar year 1949 must have been not more than 25 percent of its excess profits net income for the calendar year 1948.

5. Technical amendment of growth alternative (sec. 505)

Section 435 (e) (2) (G) of the code provides a special alternative average base period net income for corporations whose excess profits net income for 1949 is not more than 25 percent of their excess profits net income for 1948. In effect, such a taxpayer is granted an alternative average base period net income equal to the sum of one-half its excess profits net income for 1948 and 40 percent of its excess profits net income for 1950.

In order to qualify for the above alternative, present law requires that the taxpayer qualify for the growth alternative "only" under the provisions of section 435 (e) (1) (B). Corporations can qualify under section 435 (e) (1) (B) if they meet certain tests of increased net sales of new products in the base period. However, section 435 (e) (1) (A) has an alternative eligibility requirement which is based upon certain tests of increased payroll and gross receipts.

Under present law, the alternative average base period net income provided by section 435 (e) (2) (G) is denied to taxpayers qualifying for the growth alternative both under section 435 (e) (1) (B) and 435 (e) (1) (A).

Section 505 of the bill extends the benefits of section 435 (e) (2) (G) to taxpayers qualifying under section 435 (e) (1) (B) whether or not they qualify under section 435 (e) (1) (A).

6. *Inadmissible assets of banks (sec. 506)*

Under the present law, both the taxpayer using the average earnings credit and the taxpayer using the invested capital credit are allowed to increase their credits by specified percentages of the net additions to their capital after 1949. However, except in the case of taxpayers with less than \$5 million of capital who use the invested capital credit based on assets, and except in the case of taxpayers who use the credit based on the historical invested capital, an increase in investment in inadmissible assets will offset dollar for dollar what would otherwise be a capital addition, even though the increase in total assets available for investment is greater than the increase in capital. For example, if a corporation increases its capital by \$1 million on the first day of an excess profits tax year and then on the same day invests \$500,000 of the new capital in inadmissible assets, it is only allowed under the present law to increase its credit for that year with respect to \$500,000, because the \$500,000 increase in inadmissibles is subtracted from the capital addition of \$1 million in arriving at the net addition to capital which may be taken into account.

An increase in the capital of a bank may be accompanied by an increase in deposits of several times that amount, total assets being increased by the new capital and increased deposits. However, since a bank invests additional funds deposited with it as well as its additional capital, an investment of even a small part of its additional assets in inadmissible municipal bonds may completely offset its capital additions. Thus, under present law the bank may have no additional credit based upon the new capital in such cases.

Section 506 of the bill provides that while a bank's increase in inadmissibles in an excess profits tax year will still serve to reduce its increase in capital in the same year, if its total assets increase more than its capital increases the net capital addition will be reduced only by a percentage based on the ratio of additional inadmissible assets to the additional total assets acquired since the beginning of its first excess profits tax year. A similar proportion is to be used where there is a decrease in capital accompanied by a larger decrease in total assets and also accompanied by a decrease in inadmissible assets.

This section of the bill also provides an adjustment of the inadmissible asset factor in the computation of base period capital additions for banks which is based on a similar ratio principle.

Under the present law a corporation computes base period capital additions by comparing its "yearly base period capital" at the beginning of its first excess profits tax year, at the beginning of the preceding year, and at the beginning of the second preceding year. The bill provides that, in determining its yearly base period capital for each year, a bank is to subtract from the amount of its equity and borrowed capital a percentage of that amount which is equal to the ratio of its inadmissible assets to its total assets, instead of subtracting the entire amount of its inadmissible assets as is the case with other corporations. This provision of the bill, with respect to the base period capital additions of banks, is optional for taxable years beginning before the date of enactment of the bill and mandatory thereafter.

This section of the bill also provides that, in the case of all corporations (whether or not they are banks), the "yearly base period

capital," for purposes of computing base period capital additions, is in no event to be less than zero. Thus, in any case where inadmissible assets at the beginning of a year exceed the total equity and borrowed capital, the yearly base period capital will be zero.

7. Reductions in inadmissible assets subsequent to the base period (sec. 507)

Under the 1950 Excess Profits Tax Act, changes in inadmissible assets subsequent to the base period do not constitute a capital addition or reduction (although reductions in inadmissibles are subtracted from capital reductions and increases in inadmissibles are subtracted from capital additions).

Section 507 of the bill provides (except in the case of banks) that in computing the average earnings credit, a reduction in inadmissibles subsequent to the base period, to the extent that the reduction exceeds any net capital reduction, is to be treated as if the amount of the reduction were a capital addition, provided that the funds obtained by selling, inadmissible assets are invested in operating assets. Similar treatment is provided for banks, but with an adjustment for total assets. Operating assets are defined as tangible inventory items and tangible property used in the taxpayer's trade or business.

8. Dealers in municipal bonds (sec. 508)

In computing the invested capital credit and in computing capital additions, certain adjustments are made to exclude from the invested capital certain assets known as "inadmissible assets." These include stock in other corporations, State and local government obligations and partially tax-exempt Federal obligations. The dividends and interest from these securities are not subject to the excess profits tax.

However, dealers in municipal bonds are subject to excess profits tax on their profits from the sale of these bonds. Municipal bonds are their stock in trade or inventory and the gain on the sale of the bonds is treated, therefore, as ordinary income rather than as a capital gain.

Section 508 of the bill provides, in effect, that where tax-exempt or partially tax-exempt bonds are held by a dealer primarily for sale to customers in the ordinary course of his trade or business, the dealer may elect to treat such bonds as admissible assets, provided that he also elects to include in his excess profits net income the interest on such bonds.

9. Base period abnormalities (sec. 509)

Under present law, if an abnormality exists in the taxpayer's lowest year of earnings during the base period, that year is automatically eliminated from the average base period net income computation. However, if an abnormality occurred in one of the remaining periods of 12 months or less in the base period, section 442 of the code provides that the taxpayer may, if it was in business at the beginning of its base period, substitute for its actual excess profits net income for the period of the abnormality an amount determined by multiplying its total assets for the last day of the year of the abnormality by the rate of return of its industry for that period.

The alternative average base period net income provided by section 442 is available, if the taxpayer can establish for any taxable year within its base period either that its normal production, output,

or operation was interrupted or diminished because of the occurrence, either prior to, or during the taxable year, of events "unusual and peculiar" in the experience of the taxpayer or that the business of the taxpayer was depressed because of temporary economic circumstances unusual in its case. This is known as an "abnormality."

The bill provides an additional alternative eligibility requirement under section 442. Section 509 of the bill provides that where the earnings of the taxpayer's third-best base period year were less than 35 percent of the average of the earnings of his two best base period years and where an abnormality has occurred in the prior year, the taxpayer will automatically be entitled to use its industry rate of return for the third best year. This new provision is limited, however, so that the substituted earnings may not in any case exceed the average of the taxpayer's two best years.

The requirement of present law that the substitute excess profits net income provided by section 442 may be utilized for a single abnormal year only if it exceeds 110 percent of the taxpayer's excess profits net income for that year computed without the substitution does not apply to taxpayers who are eligible under this provision.

10. Capital reduction for loans made by parent corporations to subsidiaries (sec. 510)

Section 510 of the bill provides that where a subsidiary corporation computes its average earnings credit on the basis of the industry rate of return applied to its total assets and where such subsidiary has borrowed funds from its parent corporation on open account, the amount so borrowed is to be eliminated from its total assets.

11. Change in products committed to prior to close of base period (sec. 511)

Section 443 of present law provides that where a corporation made a substantial change in the products or services it furnished during the last 3 years of its base period, and, within 3 years after the change, the new product accounted for more than 40 percent of gross income or 33 percent of net income and net income increased 25 percent, then the corporation is entitled to determine its average base period net income by multiplying its industry rate of return by its total assets.

As the above description indicates, present law confines this type of relief to corporations which actually introduced a new product before the end of the base period.

Section 511 of the bill provides that where a substantial change in the products produced by a taxpayer has been made after the end of the base period, such a change is to be deemed to have been made in the base period, for the purpose of qualifying for the alternative average base period net income available under section 443 of the code, if the taxpayer, prior to July 1, 1950, commenced the construction of the facilities necessary to the production of the new product, and if such construction and the production of the new product were in furtherance of a course of action to which the taxpayer (or a corporation with which the taxpayer had the privilege of filing a consolidated return for its first excess profits tax year) was committed prior to the end of the base period. This commitment must be evidenced by a contract with another person and that contract must have granted a license, franchise, or similar rights essential for the production of the new product.

12. Technical amendment relating to new corporations (sec. 512)

A new corporation computing its income credit under section 445 of the code for any of its first 3 years which are excess profits tax years is, under the present law, entitled to apply the industry rate of return only to its total assets at the beginning of its first excess profits tax year plus its net capital addition or less its net capital reduction after that date. Thus, the industry rate can be applied only to increases in its equity capital and 75 percent of increases in its borrowed capital, to the extent that its assets are acquired after the beginning of its first excess profits tax year. This treatment is less favorable than that provided for other new corporations or that provided for corporations using other relief sections involving the industry rate of return because it provides for the inclusion of only 75 percent of borrowed capital.

Section 512 of the bill provides that a new corporation computing its income credit under section 445 for any of its first 3 years which are excess profits tax years is to be entitled to its industry rate of return applied to equity capital plus 100 percent of borrowed capital, less interest on borrowed capital. Also, for purposes of computing a net capital reduction for any of these three years under section 445, decreases in borrowed capital and increases in loans to members of a controlled group are counted at 100 percent.

13. Regulated public utility credit for intrastate pipelines (sec. 513)

The alternative excess profits tax credit for certain regulated public utilities provided by section 448 of the code extends, under present law, to corporations engaged as common carriers in the furnishing or sale of gas, oil or other petroleum products (including shale oil) by pipeline, if subject to the jurisdiction of the Interstate Commerce Commission. The alternative credit in these cases is, in effect, equal to a return of 6 percent upon total equity and borrowed capital after normal tax and surtax.

Since the jurisdiction of the Interstate Commerce Commission extends only to interstate pipelines, under present law the special credit provided by section 448 is denied those pipelines whose operations are entirely intrastate in character.

Section 513 of the bill amends section 448 of the code to provide that pipeline common carriers subject, with respect to rates, to the jurisdiction of the public service commissions of any State shall be eligible for the regulated public utility credit. The same 6 percent credit is made applicable as in the case of interstate pipelines.

14. Lessor railroad corporations (sec. 514)

Section 448 of the code provides an alternative excess profits tax credit for certain regulated public utilities. In the case of railroads this alternative credit is equal to a return of 6 percent upon total equity and borrowed capital after, in effect, normal tax and surtax. To establish eligibility for this alternative credit a railroad corporation must be engaged "as a common carrier in the furnishing or sale of transportation by railroad" and must be subject to the jurisdiction of the Interstate Commerce Commission. Furthermore, such a railroad can qualify only if 80 percent or more of its gross income (computed without regard to capital gains and losses) is derived from the furnishing or sale of railroad transportation.

Section 141 of the code permits the filing of consolidated returns by affiliated corporations which are regulated public utilities within the meaning of section 448. Section 514 of the bill provides that certain lessor railroad corporations will be permitted to qualify for the regulated public utility credit where they file consolidated returns with their lessee railroad corporations which qualify under section 448.

15. Exempt excess output of sulphur, potash, metallurgical grade limestone and chemical grade limestone (sec. 515)

Section 453 of the present law provides a partial exemption for coal and iron mines, timber properties, and natural gas and metal mining properties not in operation during the base period. One-third of the net income in the current taxable year of these properties is exempt from excess profits tax.

Coal and iron mines, timber properties and natural gas properties which were in operation during the base period are also extended special relief under this provision of present law which exempts from excess profits tax one-half the income from excess output during the taxable year. The excess output is the production in excess of average annual production from the property (whether or not then owned by the taxpayer) during the period 1946-June 30, 1950.

Nonmetallic minerals are not provided the special treatment described above, either in the case of new or old properties. Section 515 of the bill extends the special treatment described above to sulphur, potash, and metallurgical or chemical grade limestone deposits.

16. Transition from World War II production and increase in peacetime capacity (sec. 516)

Section 516 of the bill extends to corporations meeting certain requirements the benefits of the special growth alternative described in section 435 (e) (2) (G) of the code. In general, this permits corporations to compute an alternative average base period net income on the basis of the sum of one-half of their income in 1948 and 40 percent of their income in 1950.

To qualify under this provision a corporation must be a manufacturing corporation which commenced business before 1940, and it must meet the following requirements:

1. The adjusted basis of the corporation's real property and depreciable tangible property must not be in excess of \$10 million as of the beginning of its base period.

2. The unadjusted basis of the corporation's real property and depreciable tangible property at the close of its base period must be 250 percent or more of the basis of such facilities at the beginning of its base period.

3. Seventy percent of the corporation's income for the years 1942 through 1945 must be attributable to contracts with the United States or related subcontracts, but less than 20 percent of the corporation's income during the base period and in the calendar year 1950 must be attributable to contracts with the United States or related subcontracts.

4. Both the corporation's profits in 1945 and the average of its profits in 1948 and 1949 must be at least 300 percent of the average of its profits for 1946 and 1947.

17. Special relief provision for corporations suffering catastrophes (sec. 517)

Section 517 of the bill provides that manufacturing corporations suffering from a catastrophe in the last 36 months of the base period may: (1) substitute their average excess profits net income in their base period, prior to the year in which the catastrophe occurred, for their earnings during the year in which the catastrophe occurred; or (2) compute their average base period net income under the growth alternative provided in section 435 (e) (2) (G) of the code. This growth alternative, in general, permits corporations to compute their average base period net income on the basis of one-half of their income in 1948 and 40 percent of their income in 1950.

A catastrophe is defined as a fire, storm, explosion, or other casualty which rendered inoperative all of the facilities of a plant or plants accounting for at least 15 percent of a corporation's total facilities. As a result of the catastrophe the corporation's normal operation must have been "substantially interrupted" for more than 12 months, and the production facility destroyed must have been replaced before the end of the base period by a production facility with at least an equivalent adjusted basis.

18. Consolidation of newspapers (sec. 518)

Section 518 of the bill provides an alternative average base period net income for any taxpayer which was engaged primarily in the newspaper publishing business and which, after the middle of its base period and prior to June 30, 1950, consolidated substantially all of its mechanical circulation, advertising, and accounting operations in connection with its newspaper publishing business with the similar operations of another corporation engaged in the newspaper publishing business in the same locality.

The alternative average base period net income provided is the actual average base period net income determined under section 435 (d), plus the amount by which the average annual expenses attributable to the operations which were consolidated, during the two taxable years preceding the taxable year in which the consolidation occurred, exceeded the expenses attributable to the same operations during the next taxable year beginning after the consolidation, after adjusting the actual expenses of the latter year for increases in labor costs and newsprint costs after the consolidation.

In order to be eligible for this alternative, the taxpayer must establish to the satisfaction of the Secretary that the consolidation resulted in substantial reductions in the expenses which would have been incurred had the consolidation not taken place. Furthermore, either the deductions of the taxpayer for the taxable year following that of the consolidation must not be more than 80 percent of the average of those deductions for the 2 years preceding the year of the consolidation, or the taxpayer's income in the year following the year of the consolidation must be at least 125 percent of its average base period income.

19. Special relief provision for companies engaged in television broadcasting during the base period (sec. 519)

Section 519 provides corporations which engaged in the television broadcasting business before January 1, 1951, with an alternative method of computing their average base period net income. If these

corporations engaged in some other business during the base period they may compute an average base period net income for their non-television business (using the general average method) and add to it a special average base period net income figure for their television broadcasting business. A taxpayer may compute this latter figure by multiplying its total television assets either by the average base period industry rate of return for radio broadcasting, or (if the taxpayer was in the radio broadcasting business during the base period) by its own individual base period rate of return on its own radio broadcasting business. If the taxpayer was engaged in the television broadcasting business during the base period, the industry rate of return or its individual radio rate of return will be applied to its total television assets at the close of the base period. If the taxpayer acquired its television broadcasting business after the close of the base period and before January 1, 1951, the industry rate of return or its individual radio rate of return will be applied to its total television assets at the end of the first month in which it engaged in the television broadcasting business.

Appropriate adjustments are to be made where assets previously used in nontelevision business have been used to acquire the television broadcasting business, to prevent a double counting of the income of these assets.

20. Construction resulting in an increase in capacity completed after end of base period (sec. 520)

Section 444 of present law provides that a corporation which commenced business before its base period and made substantial changes in its facilities during the last 36 months of the base period may use a substitute average base period net income. This substitute is determined by applying its industry rate of return to its total assets.

To qualify for relief under the "change in capacity" formula, the corporation must have added to its facilities in a manner which—

1. resulted in an increase of 100 percent or more in its productive capacity; or
2. resulted in an increase of 50 percent or more in its productive capacity and resulted in an increase in the adjusted basis of its total facilities of 50 percent; or
3. resulted in an increase in the unadjusted basis of its total facilities of 100 percent or more.

Section 520 of the bill provides that if a corporation completed construction of a manufacturing establishment during its first taxable year ending after June 30, 1950, and meets certain conditions described below, this addition or replacement, for purposes of section 444 (b) of present law, is to be treated as if it had been added to its total facilities on the last day of its base period. However, in order to qualify, the corporation must, prior to the end of its base period, have completed 40 percent of the construction, and the completion of the establishment must have been in pursuance of a plan to which the corporation was committed prior to the end of its base period.

21. Taxable exchanges (sec. 521)

Part II of the Excess Profits Tax Act of 1950 provides rules under which an acquiring corporation may utilize the earnings experience of a predecessor corporation in computing its own average earnings base. However, under the Excess Profits Tax Act of 1950, the acquiring

ing corporation may use this earnings experience only where the assets of the predecessor corporation were acquired in certain tax-free exchanges. In general, these tax-free exchanges occur where the assets of a predecessor corporation are acquired by the acquiring corporation in exchange for its stock. Under the present law the earnings experience of a predecessor corporation may not be used by an acquiring corporation where the assets were acquired by purchase for cash or in some other type of taxable exchange.

Section 521 of the bill provides that in the case of taxable exchanges occurring prior to December 1, 1950, where the predecessor corporation has been liquidated and a purchasing corporation has obtained substantially all of the predecessor corporation's assets, the purchasing corporation may use the predecessor corporation's base period experience in computing its average base period net income under the general average method. However, it is to be permitted the use of this base only to the extent that new funds were used for the purchase of these assets. These provisions are also to apply where the predecessor was a sole proprietorship or partnership, in which case the base period income of the predecessor is to be computed as if it were a corporation.

Similarly, where a predecessor corporation had two or more separate businesses, a corporation which purchased one of these businesses is entitled to use the earnings experience of the business in computing its average base period net income under the general average method. However, in such a case the predecessor corporation must have disposed of all of its businesses in a single plan of complete liquidation. Where a purchasing corporation purchased only one of several businesses of a selling corporation, the portion of the base period experience of the seller which is made available to the purchasing corporation is to be determined under regulations on the basis of an allocation based on value or on the basis of the earnings experience of the assets purchased. These provisions also apply where the predecessor was a partnership.

The bill also permits a purchasing corporation to use the earnings experience of a business of another corporation if the other corporation was liquidated and its assets were distributed to its shareholders who forthwith sold them to the purchasing corporation.

The bill further provides that in the case of taxable exchanges a purchasing corporation is not to be denied the use of the earnings base of a predecessor merely on the grounds that a franchise or license, which was an important source of earnings of the predecessor, cannot be transferred from the predecessor to the acquiring corporation, but must be obtained by the latter from the same source. An example of this would be an automobile dealer agency.

This amendment is limited to taxable exchanges occurring before December 1, 1950.

22. Exemption for strategic minerals (sec. 522)

Section 450 of the code exempts from excess profits tax income attributable to the mining of certain strategic minerals. Section 522 of the bill adds bauxite to the present list of exempt strategic minerals.

23. Consolidated returns (sec. 613)

Section 613 of the bill amends the consolidated return provisions of the code to permit a corporation exempt from excess profits tax

under section 454 (f) of the code, which has filed a consent to be included in a consolidated return for a taxable year ending after June 30, 1950, the right to amend its election within 90 days after the date of enactment of this act.

VI. STRUCTURAL CHANGES IN ESTATE AND GIFT TAXES

1. *Foreign estate tax credit (sec. 603)*

Under present law the United States asserts estate-tax liability with respect to the entire estate, wherever situated (except real property outside the United States), of decedents who were either domiciled in the United States or citizens of the United States. Since many other countries, like the United States, tax property situated within their boundaries, estates of citizens of the United States who were foreign residents are quite likely to be subjected to a double tax. With a considerable number of foreign countries, the United States has entered into estate-tax conventions which provide relief for this problem and other treaties at present are under consideration. However, in other cases the possibility of double taxation still exists.

Section 603 of the bill removes this double taxation by providing a foreign estate tax credit in the case of United States citizens and residents (subject to a limitation indicated below) where the double tax arises from the United States imposing a tax on the entire estate, and a foreign country imposing an estate tax on property situated within that country. The foreign estate tax credit is allowed both against the basic estate tax and the additional estate tax. As in the case of the income tax, a foreign tax credit is allowed in the case of those who were residents but not citizens of the United States only if the foreign country in which the decedent was a citizen allows a similar foreign tax credit in the case of citizens of the United States who are residents of that country. As in the case of the foreign tax credit allowed for income tax purposes, the foreign estate tax credit is limited in a manner which permits the offsetting of taxes paid the foreign country with respect to property situated in that country only to the extent that such property is taxed by the United States. Thus, if a foreign country imposes an estate tax at a higher effective rate than that provided by the United States, a credit is to be allowed only to the extent of the effective rate of tax imposed by the United States.

This provision is effective with respect to estates of decedents dying after the date of enactment of this bill. It does not affect any treaty obligations of the United States.

2. *United States bonds held by nonresident aliens (sec. 604)*

Section 604 of the bill deals with the status under the estate and gift taxes of obligations of the United States Government owned by nonresident aliens not engaged in trade or business in the United States. It provides that United States Government bonds issued on or after March 1, 1941, are to be included in the gross estates of the nonresident aliens, and that gifts of Government bonds issued on or after March 1, 1941, are to be subject to gift tax.

The amendment will apply only in the case of estates of decedents who die after the date of enactment of this bill or to gifts made after such date.

3. *Works of art loaned by nonresident aliens (sec. 605)*

Section 605 of the bill provides that works of art owned by a nonresident alien which are loaned to public galleries or museums in the United States for exhibition purposes are to be exempt from estate tax if the nonresident alien dies while the works of art are in this country.

Present law (sec. 863 (c) of the code) limits the exemption to works of art loaned to the National Gallery of Art.

This provision is effective with respect to estates of decedents dying after the date of enactment of this bill.

4. *Estate taxes of servicemen killed in Korea (sec. 606)*

The bill provides the same estate tax treatment for members of the Armed Forces dying in combat zones or from wounds received in combat zones as was previously provided for servicemen dying during World War II.

Section 606 provides that the additional estate tax is not to apply to the estate of a decedent dying while in active service as a member of the military or naval forces of the United States if the decedent was either killed in action while serving in a combat zone, or died as a result of wounds or other injuries, or a disease, suffered while in line of duty by reason of a hazard to which he was subjected as an incident of such military or naval service.

This provision is effective with respect to deaths occurring after the commencement of hostilities in Korea (after June 24, 1950) and before January 1, 1954.

5. *Reversionary interest of decedents dying prior to February 10, 1939 (sec. 607)*

The provisions of the Technical Changes Act of 1949 apply only with respect to the decedents dying after February 10, 1939, the date of enactment of the Internal Revenue Code. In the case of such decedents, property is included in the gross estate by reason of the retention of a reversionary interest in a transfer made before October 8, 1949, only if the reversionary interest is express and is worth more than 5 percent immediately before the decedent's death.

On March 18, 1937, Treasury Decision 4729 was issued by the Treasury Department, providing that property should not be taxed by reason of the retention of a reversionary interest. Section 607 of the bill provides that property transferred by a decedent dying after March 18, 1937, and before February 11, 1939 is not to be included in the estate of the decedent because of a possibility of reverter if the regulations in effect at the time of the death of the decedent did not provide for the inclusion of property so transferred.

6. *Decedents dying in 1950 with pre-1931 life estates retained (sec. 608)*

The Technical Changes Act of 1949 provided that, in the case of life estates retained in transfers made on or before March 3, 1931 (and in some cases before June 7, 1932), the property would not be included in the decedent's gross estate by reason of retention of the life estate if the decedent died before January 1, 1950. The 1949 act also provided that these life estates could be released free of estate and gift tax at any time during 1949 or 1950. The 1949 act containing this tax-free release provision became law on October 25, 1949. There have been several cases in which decedents died in 1950

before releasing their pre-1931 life estates, possibly because they were not aware of the tax-free release provision or were not in condition to effect a release.

In the case of life estates retained in transfers made on or before March 3, 1931, section 608 of the bill provides that property will not be included in the decedent's gross estate by reason of retention of the life estate if the decedent died before January 1, 1951 (instead of January 1, 1950, as provided by the present law).

7. Pre-1916 transfers with reversionary interests retained (609)

Under the present law a transfer in trust prior to 1931 is not subject to estate tax by reason of the retention of a life estate provided that the decedent died prior to 1950 (1951 under section 608 of this bill) and a transfer prior to October 8, 1949, is not subject to estate tax by reason of the retention of a reversionary interest unless the reversionary interest is express, rather than arising by operation of law, and exceeds 5 percent of the value of the property immediately before the decedent's death. The present law makes no distinction between transfers made before the enactment of the estate tax, September 8, 1916, and transfers made after that date. However, from 1927 to 1934 the regulations provided that transfers made before enactment of the estate tax would not be taxable. Also, prior to the decision of the Supreme Court in the Hallock case in 1940 it was felt that property would not be taxed in a decedent's estate by reason of his retention of a reversionary interest.

Section 609 of the bill provides, in effect, that property will not be included in the estate of a decedent by reason of the retention of a reversionary interest in a transfer made prior to September 8, 1916 where the decedent died after February 10, 1939, the date of enactment of the Internal Revenue Code.

8. Reversionary interests in life insurance—Decedents dying after October 21, 1942 (Sec. 610)

The Revenue Act of 1942 provided that, in determining the proportion of life-insurance premiums paid by the decedent, premiums paid by a decedent on or before January 10, 1941, are included if the decedent at any time after that date possessed an incident of ownership in the policy. Since a reversionary interest was construed to be an incident of ownership, the retention of any reversionary interest, regardless of its size and regardless of whether it was express or by operation of law, had the effect of making the premiums paid by the decedent includible for purposes of the premium payment test. In order to make the treatment of life insurance consistent with the treatment of other property under the Technical Changes Act of 1949, the Revenue Act of 1950 provided that a reversionary interest should be considered an incident of ownership only if it were express and, at some time after January 10, 1941, exceeded 5 percent of the value of the policy. The provision in the 1950 act was an amendment of the Revenue Act of 1942, so that it was effective with respect to the estates of decedents dying after October 21, 1942. However, the 1950 provision did not provide for the reopening of closed cases. In this respect it was different from the 1949 amendment of section 811 (c), which provided a 1-year period during which claims for refund could be filed for closed cases.

Section 610 of the bill amends section 503 of the Revenue Act of 1950 in order to permit the reopening of closed cases if a claim was filed within 1 year from the date of the enactment of the Technical Changes Act of 1949, on October 25, 1949.

VII. EXCISE TAXES

It is estimated that at the levels of production anticipated in the fiscal year 1952 excise tax changes made by the bill, when fully effective, will raise revenues by \$1,204 million. As shown in table 13, almost all of the excise-tax revenue provided by the bill is raised from the manufacturers' excises, the new taxes on gambling and the taxes on alcoholic beverages and tobacco. No rate increases are provided in the case of the retail excises, the excises on transportation and communication, or the admission taxes.

TABLE 13.—*Excise-tax revenue raised by the bill by major sources*

[At estimated fiscal year 1952 levels of production and consumption but in a full year of operation]

Type of excess tax	Additional revenue (in millions of dollars)
Alcoholic beverages	\$252
Tobacco products	156
Manufacturer	428
Retail	—7
Transportation and communication	—14
Amusement and recreation	—18
Gambling	407
Total	1,204

The excise-tax changes made by the bill become effective on the first day of the first month which begins more than 10 days after the date of enactment of the bill. The bill also provides that the excise-rate increases are to expire on April 1, 1954. The increases in the occupational taxes on dealers in liquor and coin-operated gaming devices are an exception to this rule. These increases are permanent. With November 1 as the effective date for these changes, it is estimated that the bill will increase excise-tax revenues by \$787 million in the fiscal year 1952 (this includes the floor stock taxes), raising total receipts for 1952 from excises to \$9,347 million.

A. ALCOHOLIC BEVERAGES

1. *Distilled spirits (secs. 451, 462)*

Section 451 of the bill increases the tax on distilled spirits from \$9 to \$10.50 per proof gallon. The increase of \$1.50 per proof gallon amounts to about 26 cents a fifth on the ordinary type of whisky bottled at about 85 proof. Under present law the \$9 per gallon tax on distilled spirits averages about 40 percent of the retail price per bottle, including tax. The tax imposed by the bill will raise this figure to about 43 percent. This assumes the addition in full of the tax to current prices, but no price mark-up on the tax.

At the present time, although the general tax rate on distilled spirits is \$9 a proof gallon, a draw-back of \$6 per proof gallon is provided for distilled spirits used for medicines, medicinal preparations, food products, flavors, or flavoring extracts which are unfit for beverage pur-

poses. This leaves a net tax of \$3 per proof gallon in such cases. The bill increases these draw-backs so that a net tax of \$1 per proof gallon is finally paid. With the tax rate of \$10.50 per proof gallon this is accomplished in section 462 of the bill providing in section 3250 (1) of the code a draw-back of \$9.50 per proof gallon. When the tax rate reverts to \$9 per proof gallon, the draw-back is to be decreased to \$8 per proof gallon.

2. Beer (sec. 453)

Section 453 of the bill increases the tax imposed on fermented malt liquor, or beer, by \$1 per barrel, or from the \$8 per barrel provided by present law to \$9 per barrel. This is an increase in tax of $12\frac{1}{2}$ percent as contrasted to an increase of $16\frac{2}{3}$ percent provided in the case of distilled spirit. Under present law the tax on beer represents about 15 percent of the average retail price (including tax) and under the bill this is increased to between 16 and 17 percent. In the case of a 12-ounce bottle of beer the tax increase represents an increase of about one-third of 1 cent.

3. Wines (sec. 452)

Section 452 of the bill to provide for about the same increase in the tax on wines as in the case of beer, namely, an increase of approximately $12\frac{1}{2}$ percent. Thus, in the case of still wines, including vermouth, the tax per gallon is to be—

- (a) increased from 15 to 17 cents where the alcoholic content of the wine is not more than 14 percent,
- (b) increased from 60 to 67 cents where the alcoholic content of the wine is over 14 percent but not over 21 percent; and
- (c) increased from \$2 to \$2.25 where the alcoholic content of the wine is over 21 percent but not over 24 percent.¹⁴

In the case of sparkling wines, liqueurs, and cordials the tax per half pint is to be:

- (a) increased from 15 to 17 cents in the case of champagne or sparkling wines; and
- (b) increased from 10 to 12 cents in the case of liqueurs, cordials, and artificially carbonated wines.

Most of the wine consumption in the United States today is represented by the first two categories of still wines. Natural, or table, wines with an alcoholic content not over 14 percent and including such wines as sauterne, claret, and burgundy represent about one-quarter of the total consumption. Sweet or dessert wines with an alcoholic content between 14 and 21 percent and including such wines as port, sherry, tokay, and muscatel represent approximately three-fourths of the total consumption in the United States today. These wines are fortified with brandy or alcohol before the natural fermentation is completed. Sparkling wines account for most of the small remaining consumption in the United States today and in large part represent imports.

In terms of retail price the tax under present law represents about 4 percent of the retail price (including tax) in the case of table wines, and is to be increased by about one-half of 1 percent under the bill. The tax on sweet wines under present law represents about 15 percent

¹⁴ Wines with alcoholic content in excess of 24 percent are subject to the tax on distilled spirits.

of the retail price and under the bill this percentage is to be increased by slightly more than 1 percentage point. The tax on sparkling wines represents about 25 percent of the retail price under present law and under the bill is to be increased to about 26½ percent.

4. Occupational taxes on dealers in liquor (sec. 461)

Retail dealers in liquor other than those dealing exclusively in wine and beer are required under section 3250 of the code to pay a special annual occupational tax of \$27.50. Section 461 of the bill raises this occupational tax to \$50 a year.

Section 461 of the bill also increases the occupational taxes on wholesale dealers in liquors and wholesale dealers in malt liquors. Section 3250 (a) (1) of the code imposes a special occupational tax of \$110 on wholesale dealers in liquors. This includes wholesale dealers in wines, as well as wholesale dealers in distilled spirits. The bill raises this tax to \$200. Section 3250 (d) of the code provides an occupational tax of \$55 for wholesale dealers in malt liquor. This tax is raised to \$100.

5. Spirits lost in floods of 1951 (sec. 498)

Section 498 of the bill provides for tax refunds or credits to distillers or rectifiers for internal revenue tax and custom's duties previously paid with respect to spirits which have been lost or rendered unmarketable as a result of floods during the year 1951. To be eligible for this tax refund or credit the spirits must still be in the possession of—

1. The person originally paying the tax,
2. a rectifier, or
3. a wholesale or retail liquor dealer.

It is also provided that the refunds or credits may be made in the case of any of the above persons except retail liquor dealers who replaced for someone else distilled spirits destroyed or rendered unmarketable by a flood if the replacement was made without compensation. In order to be eligible for the refund or credit a claimant must furnish proof that the tax or duty was fully paid, that the damage was sustained as the result of the flood conditions, that he was not insured against loss of the tax, and in the case of replacements that he has actually replaced the full equivalent of the distilled spirits destroyed.

B. TOBACCO PRODUCTS

1. Cigarettes (sec. 421)

In the case of cigarettes, section 421 of the bill increases the tax provided by section 2000 of the code from \$3.50 per thousand to \$4 per thousand. In effect, this raises the tax on the ordinary package of 20 cigarettes from 7 cents to 8 cents. The present tax on cigarettes represents about 34 percent of the retail price including tax. The increase will raise this to about 37 percent.

2. Snuff, chewing tobacco, and smoking tobacco (sec. 423)

In the case of snuff, chewing tobacco, and smoking tobacco section 423 of the bill reduces the tax from 18 cents per pound to 10 cents per pound.

C. MANUFACTURERS' EXCISES

1. Gasoline and diesel fuel (secs. 489, 441)

Section 489 of the bill provides for a one-half cent increase in the gasoline tax, raising the Federal gasoline tax, provided by section 3412 of the code, from $1\frac{1}{2}$ to 2 cents per gallon. Since the tax on gasoline is a specific and not an ad valorem tax, the percentage relationship of the tax to the retail price will vary with the variation in the price of gasoline. In 1950 the tax was 6 percent of the retail price, including tax, and in 1940 it was $8\frac{1}{2}$ percent of the retail price. The bill will result in a tax equal to about 8 percent of the retail price of gasoline including tax.

Section 441 of the bill also adds a new section 2450 to the code imposing a tax of 2 cents per gallon on diesel fuel for diesel-powered highway vehicles. The tax is imposed on the retailer selling the diesel fuel for highway use and also on persons using the diesel fuel in highway vehicles if no tax was collected from the retailer. Of this 2 cents per gallon tax, $1\frac{1}{2}$ cents is permanent. The remaining $\frac{1}{2}$ cent tax terminates as of April 1, 1954.

2. Passenger cars and motorcycles (sec. 481 (b))

Section 481 (b) of the bill increases the tax, provided by section 3403 of the code, on passenger cars and motorcycles from 7 to 10 percent of the manufacturer's price. However, the bill removes the tax on house trailers. The present tax on passenger cars on the average represents 5 percent of the retail price, including tax. The increase provided by this bill will raise this to somewhat over 7 percent.

3. Automobile trucks, busses, and truck trailers (sec. 481 (a))

Section 481 (a) of the bill increases the tax on automobile trucks, busses, and truck trailers, provided by section 3403 of the code, from 5 to 8 percent of the manufacturer's price.

4. Automotive parts and accessories (sec. 481 (c), (d), (f))

Section 481 (c) of the bill increases the tax on automotive parts and accessories, provided by section 3403 of the code, from 5 to 8 percent of the manufacturer's price.

With respect to reconditioned or rebuilt parts, where such sales are subject to the parts and accessories tax under present law, section 481 (d) of the bill provides an amendment which excludes from the tax base the fair market value of any like part traded in for a reconditioned or rebuilt part.

Section 481 (f) of the bill amends section 3443 of the code to provide for a credit or refund of the tax on automotive parts and accessories where the parts or accessories are used or resold for the repair or replacement of farm equipment parts. However, this crediting or refunding device is not made available in the case of spark plugs, storage batteries, leaf springs, coils, timers, and tire chains. An exemption is already provided by existing regulations for automotive parts and accessories sold to manufacturers for use on new farm equipment with the exception of the items specifically listed above. The provision applies the same policy to sales of repair or replacement parts, making use, in this case, of a crediting or refunding procedure.

5. Tires on toys, etc. (sec. 481 (h))

Section 481 (h) of the bill makes a revision in the 5-cent-per-pound manufacturers' tax on tires. Section 3400 of the code is amended to exclude from this tax tires which are not more than 20 inches in diameter and one and three-fourths of an inch in cross section if the tires are of all-rubber construction. The bill also excludes tires with internal wire fasteners, irrespective of size. Under present law, the tax on tires is applicable to all tires regardless of the use for which they are intended. This provision has the effect of removing the tax in the case of tires for baby buggies, lawn mowers, children's tricycles, scooters, coaster wagons, etc.

6. Electric, gas, and oil appliances (sec. 485)

Section 485 of the bill revises the base of the 10 percent manufacturer's tax on electric, gas and oil appliances provided by section 3406 of the code. Except in the case of electric direct motor-driven fans and air circulators, the bill removes from tax all appliances of a non-household type. In the case of the former, only industrial type electric direct motor-driven fans and air circulators are removed from the base of the tax. In addition, the bill exempts from tax all electric heating pads. It also adds the following household types of items to the base of this tax:

- | | |
|---|--|
| 1. Electric exhaust blowers. | 10. Electric ice cream freezers. |
| 2. Electric belt-driven fans. | 11. Electric mangles. |
| 3. Electric or gas clothes driers. | 12. Electric motion or still picture projectors. |
| 4. Electric door chimes. | 13. Electric pants pressers. |
| 5. Electric dehumidifiers. | 14. Power lawn mowers. |
| 6. Electric dishwashers. | 15. Electric sheets and spreads. |
| 7. Electric floor polishers and waxers. | 16. Electric garbage disposal units. |
| 8. Electric food choppers and grinders. | |
| 9. Electric hedge trimmers. | |

The items taxed under present law which will continue to be subject to tax under the bill are electric direct motor-driven fans and air circulators of the nonindustrial type and the following household types of appliances:

1. Electric, gas, and oil water heaters.
2. Electric, gas, and oil appliances for cooking or warming food or beverages for consumption on the premises.
3. Electric flat irons.
4. Electric air heaters (but not furnaces).
5. Electric immersion heaters.
6. Electric blankets.
7. Electric mixers, whippers, and juicers.

Of the items added to the base of the tax, the most important in terms of revenue are power lawn mowers, electric dishwashers, and electric and gas clothes driers. This 10-percent manufacturers' tax, when expressed as a percentage of the retail price of the electric, gas, and oil appliances, including tax, represents about a 6-percent tax.

7. Navigation receivers sold to the United States Government (sec. 482)

Section 482 of the bill makes a revision in the base of the 10-percent manufacturers' excise tax on radio receiving sets, television receiving sets, etc., imposed by section 3404 of the code. "A communication, detection, or navigation receiver of the type used in commercial, military, or marine installations," is exempted from this tax if sold to the United States for its exclusive use.

8. *Refrigeration equipment (sec. 483)*

Under present law, a 10-percent manufacturers' tax is imposed on household type mechanical refrigerators, quick-freeze units, and refrigerating and freezing apparatus. In the case of refrigerating and freezing apparatus, present law provides that the tax does not apply in the case of sales of refrigerator components to wholesalers and retailers for resale to manufacturers of taxable refrigerators, quick-freeze units or refrigerating or cooling apparatus. Where refrigerating apparatus is sold to a wholesaler or retailer for resale to a manufacturer of nontaxable refrigerators or refrigeration equipment the tax does apply. However, if a manufacturer of refrigeration equipment sells it directly to another manufacturer of refrigeration equipment, no tax applies irrespective of whether or not the refrigeration equipment sold by the second manufacturer is taxable.

Section 483 of the bill amends section 3405 (b) of the Code to provide that, under regulations prescribed by the Secretary of the Treasury, the tax is not to apply to refrigeration components sold to wholesalers or retailers where the components are held for resale to manufacturers of refrigeration and freezing equipment (and finally so sold) irrespective of whether or not the equipment sold by the latter manufacturers is taxable equipment.

9. *Sporting goods (sec. 484)*

Section 484 of the bill makes two changes in the 10-percent manufacturers' tax imposed on sporting goods by section 3406 of the code.

Under present law this tax covers virtually all types of sporting equipment although certain toy or children-sized items are exempt. The first change made by the bill with respect to the sporting goods tax is to remove from its application specific types of articles which are used predominantly for school sports and by children. The items removed from the application of the tax are as follows:

- | | |
|--|---|
| 1. Baseballs and baseball equipment. | 10. Push balls. |
| 2. Basketballs. | 11. Skates. |
| 3. Boxing gloves and other boxing equipment. | 12. Snow toboggans and sleds not more than 60 inches in length. |
| 4. Fencing equipment. | 13. Soccer balls. |
| 5. Footballs and other football equipment. | 14. Softballs and other softball equipment. |
| 6. Gymnasium equipment and apparatus. | 15. Track hurdles. |
| 7. Hockey equipment. | 16. Vaulting equipment. |
| 8. Indoor baseballs and other indoor baseball equipment. | 17. Volleyballs and other volleyball equipment. |
| 9. Mass balls. | 18. Water polo equipment. |
| | 19. Wrestling head harness. |

The items which will remain in the base of the tax are as follows:

- | | |
|--|---|
| 1. Badminton equipment. | 10. Lacrosse equipment. |
| 2. Billiard and pool tables, balls, and cues. | 11. Polo equipment. |
| 3. Bowling balls and pins. | 12. Skis and ski poles. |
| 4. Clay pigeons and traps for throwing clay pigeons. | 13. Snow shoes. |
| 5. Cricket balls and bats. | 14. Snow toboggans and sleds more than 60 inches in length. |
| 6. Croquet balls and mallets. | 15. Squash equipment. |
| 7. Curling stones. | 15. Squash equipment. |
| 8. Deck-tennis equipment. | 16. Table-tennis equipment. |
| 9. Golf clubs and other golf equipment. | 17. Tennis equipment. |
| | 18. Fishing equipment. |

The second change made by the bill is to raise the rate of tax from 10 percent to 15 percent of the manufacturer's price with respect to all of the items remaining in the tax base, except fishing equipment. In that case the bill leaves the rate at 10 percent. The tax receipts from that source are earmarked for conservation and this bill makes no change in this arrangement. Under present law the tax on sporting goods is about 6 percent of the retail price including tax and under the bill will be (except for fishing equipment) between 10 percent and 11 percent of the retail price.

10. Photographic apparatus and film (sec. 486)

Section 3406 of the code imposes a 25-percent tax on sales at the manufacturers' level of photographic apparatus, which is defined as including cameras weighing 4 pounds or less, lenses, photographic apparatus and equipment, and any apparatus or equipment designed especially for photographic purposes. A 15-percent manufacturers' tax is also imposed on photographic films (except X-ray films), photographic plates, and sensitized paper. Under present law, the tax on film is about 9 percent, and tax on equipment is about 13 percent, of the retail price.

Section 486 of the bill decreases the 25-percent tax on photographic apparatus to 20 percent and increases the 15-percent tax on film to 20 percent. The bill also revises the bases of these taxes so that they are imposed only on film, cameras, and lenses, and only on those which, insofar as administratively possible, do not represent a cost of doing business. Under the bill, the tax on these items will represent a tax of between 11 and 12 percent of the retail price.

In the case of photoflash bulbs, the bill provides floor stock refunds. That is, wholesalers, retailers and others having inventories of photoflash bulbs intended for sale on the date the elimination of the tax becomes effective would be credited, or would receive a refund, with respect to the tax paid on their inventories of photoflash bulbs.

11. Electrical energy (sec. 488)

Section 3411 of the code imposes upon vendors of electrical energy sold to domestic or commercial consumers a tax equal to $3\frac{1}{3}$ percent of the price charged. Section 488 of the bill repeals this tax.

12. Fountain pens, ball-point pens, and mechanical pencils (sec. 487)

Section 487 of the bill adds a new section 3408 to the code imposing a 15-percent manufacturers' tax on fountain pens, ball-point pens, and mechanical pencils. At the present time some pens and pencils are subject to the 20-percent retail tax on jewelry and related items where they have nonessential parts which are ornamented with precious metals. These pens and pencils are not included in the base of the new manufacturers' tax.

13. Cigarette, cigar, and pipe lighters (sec. 487)

Section 487 of the bill imposes a manufacturer's tax on all mechanical lighters for cigarettes, cigars, and pipes which are not now taxed as jewelry. The manufacturer's tax on mechanical lighters is imposed at a 15-percent rate.

D. RETAIL EXCISES

1. *Toilet preparations (sec. 431)*

Section 431 of the bill makes three changes in the 20-percent retail tax on toilet preparations imposed by sections 2402 and 1650 of the code.

The first of these changes exempts from this tax baby oils, powders, lotions, and other toilet articles unless they are advertised or sold as being usable by adults.

The second change exempts toilet preparations purchased by barber shops and beauty parlors for use in these establishments. Under present law these items are subject to tax at the time they are purchased by the barber shop or beauty parlor. However, toilet preparations purchased by a barber shop or beauty parlor for resale to customers are not taxable until sold to the ultimate user. To distinguish the purchases for resale made by the barber shop or beauty parlor from the purchases for their own use, the establishment is required to file a certificate, if no tax is paid at the time of purchase, indicating that the items will not be used in the establishment. Such certificates are not presently required in the case of tax-paid purchases for use in the establishment. The bill eliminates the tax on toilet preparations purchased by barber shops, beauty parlors, and similar establishments if intended for use in such establishments. This amendment also has the effect of eliminating the requirement of exemption certificates in connection with sales of cosmetics to barber shops and beauty parlors either for professional use therein or for resale once the businesses have established their nontaxable status as barber shops or beauty parlors.

The third change exempts from the application of this tax miniature samples of toilet preparations sold by manufacturers or distributors to house-to-house salesmen if the samples are for demonstration purposes only.

E. TRANSPORTATION AND COMMUNICATION EXCISES

1. *Domestic telegraph, cable, and radio messages (sec. 491)*

Sections 1650 and 3465 of the code impose a 25-percent tax on amounts paid for domestic telegraph, cable, or radio dispatches or messages. Section 491 of the bill reduces the tax on domestic telegraph, cable, or radio messages to 15 percent.

2. *Long-distance telephone calls from members of the Armed Forces in combat areas (sec. 492)*

Section 492 of the bill provides that the 25-percent tax on long-distance telephone calls is not to apply to calls from combat zones initiated by members of the Armed Forces.

3. *Transportation of persons (secs. 493, 494)*

The bill makes two changes in the 15-percent tax on amounts paid for the transportation of persons provided by sections 1650 and 3469 of the code. One of these exempts certain fishing trips from the tax on the transportation of persons. Under present law amounts paid for transportation in boats where the transportation takes place for the sole purpose of fishing from the boat have been held to be taxable

under these sections. Section 493 of the bill exempts from the tax on the transportation of persons amounts paid for transportation by boat for the purpose of fishing from such boat.

The second change made by the bill in the tax on the transportation of persons excludes from the application of the tax amounts paid in the case of certain types of transportation by vessels. In 1947 the tax on the transportation of persons was amended to exclude, from the application of the tax, amounts paid for transportation outside of the northern portion of the Western Hemisphere. However, amounts paid for transportation partially within United States, Canada, or Mexico, and partially outside of the northern portion of the Western Hemisphere, were continued under the tax with respect to that part of the transportation "which is from any port or station within the United States, Canada, or Mexico to any other port or station within the United States, Canada, or Mexico." For example, under present law if a vessel leaving New York for London stops at Boston for servicing or refueling, a part of the tickets purchased by its passengers is subject to the transportation tax. Section 494 of the bill provides that in the case of transportation by vessels making intermediate stops at ports in United States, Canada, or Mexico on voyages between United States and a port outside of the northern portion of the Western Hemisphere, the charge for the transportation between the intermediate stop and the port in the United States, where the transportation begins or ends, is not to be subject to the transportation tax, if the vessels are not authorized both to discharge and take on passengers at the intermediate stops.

4. *Transportation of excavation material (sec. 495)*

Under present law section 3475 of the code imposes a 3-percent tax on amounts paid for the transportation of property (in the case of coal the tax is 4 cents per short ton). In the case of building contractors paying for hauling dirt, rocks and other excavation material to some designated place the Bureau of Internal Revenue has held that a charge is being made for the transportation of property and, therefore, that such hauls are subject to tax. (Where excavation material has been removed without designating the place it is to be taken, no tax has been applied, since the Bureau has considered this to be merely the payment for removal of waste rather than a charge for the transportation of property.) Since March 13, 1951, the Bureau of Internal Revenue has followed the rule laid down by the Third Circuit Court of Appeals in *Edward H. Ellis & Sons, Inc., v. United States* that where excavation material has been hauled from one point on a construction project to another point on the same project, no transportation tax is due. However, tax still is imposed where the excavation material is taken off the construction project to some designated place, even though such place is adjacent to, or near the construction project. Section 495 of the bill exempts from this tax charges made for the use of motor vehicles for the movement of earth, rock, or other excavated material from a construction project to an adjacent area. The bill also provides that no inferences are to be drawn because of the enactment of this provision with respect to the tax on the charge for transporting other excavated material.

F. EXCISES ON AMUSEMENTS OR RECREATION

1. *General admissions (secs. 401, 402)*

Sections 1650 and 1700 of the code impose a tax of 1 cent for each 5 cents or major fraction thereof charged for admission. The bill makes two changes in the application of this tax.

The first change in the admissions tax, made by section 401 of this bill, deals with the amount paid for admission. Under present law a person admitted free or at reduced rates is required to pay the same amount of tax as a person who is charged the regular admission price, unless he is an employee, a municipal officer on official business, a child under 12, a serviceman, or (if admission is free) a hospitalized veteran. Section 401 of the bill exempts free admissions from tax in all cases and bases the tax on amounts actually paid where persons are admitted at reduced rates.

The second change provides exemptions from the admissions tax where the proceeds inure to certain types of organizations. Section 402 of the bill exempts from this tax admissions where all the proceeds inure to—

1. Churches or conventions of churches.
2. Educational organizations if such organizations normally maintain regular faculties and curricula and normally have regularly organized bodies of pupils or students in attendance at the places where their educational activities are regularly carried on.
3. Charitable organizations if such organizations are supported in whole or in part by funds contributed by the United States or any State or political subdivision thereof, or are primarily supported by contributions of the general public.
4. Societies or organizations conducted for the sole purpose of maintaining symphony orchestras or operas and receiving substantial support from voluntary contributions.
5. Organizations exempt under section 101 (6) and organized prior to October 1, 1951, which are operated for the purpose of conducting an annual chautauqua program of educational, cultural, and religious activities at a permanent location.
6. National Guard organizations.
7. Reserve officers' organizations.
8. Veterans' organizations.
9. Police or fire departments, pension or retirement funds set up for the benefit of their members and funds set up for the benefit of the heirs of members.

However, in the case of any of the above types of organizations, admissions are not exempt if they are to—

1. Motion-picture exhibitions.
2. Wrestling and boxing matches.
3. Carnivals, rodeos, or circuses where professionals participate for compensation.
4. Athletic contests unless the proceeds inure exclusively to the benefit of elementary or secondary schools (or, in the case of an athletic contest between two elementary or secondary schools, inure to the benefit of a hospital for crippled children).

The bill also exempts general admissions to nonprofit agriculture fairs; admissions to concerts conducted by nonprofit civic associa-

tions; admissions to swimming pools and other places providing facilities for physical exercise if operated by a governmental unit; admissions to a home or garden which is temporarily opened to the general public as a part of a program conducted by a society or organization to permit the inspection of historical homes and gardens if no part of the proceeds inures to the benefit of any private person; and admissions to historical sites, houses, and shrines, and associated museums if operated by an organization for the preservation of such place and if no proceeds inure to any private person.

2. *Cabarets (sec. 404)*

Section 404 of the bill relates to the application of the 20-percent tax on cabarets to ballrooms and dance halls. Some courts have construed the cabaret tax to apply in the case of ballrooms and dance halls where it was possible to purchase incidental refreshments, services or merchandise in such places. The bill amends section 1700 (e) of the code to provide that the cabaret tax shall not apply in such cases.

G. EXCISES ON GAMBLING

Section 471 of the bill adds a new chapter 27A to the code which imposes a 10-percent excise tax upon wagers of certain types, principally those placed with bookmakers and lottery operators, and a \$50 per year occupational tax both upon persons engaged in accepting such wagers and upon persons who receive wagers for the persons so engaged. The bill provides that payment of either the tax on wagers or the occupational tax does not serve to exempt any person from any penalties provided under either State or Federal law with respect to engaging in the taxed activities.

1. *Tax on wagers (sec. 471)*

The wagering tax is placed upon wagers, without regard to the outcome of individual bets. The tax is limited (1) to wagers on sports events or contests placed with a person engaged in the business of accepting such wagers, (2) to wagers placed in a wagering pool which involves a sports event or contest, if the pool is conducted for profit, and (3) to wagers placed in a lottery conducted for profit.

The tax will extend to wagers on any sport, such as horse racing, prizefights, basketball, baseball, or football, including sports exhibitions and trials. Moreover, the event wagered upon need not be a sports activity but can be any type of contest, such as an election or the outcome of primaries and nominating conventions.

Wagers on sports events or contests, to be taxable, must be placed with a person engaged in the business of accepting such wagers. This requirement excludes from tax the purely "social" or "friendly" type of bet. A person is considered to be in the business of accepting wagers if he is engaged as a principal who, in accepting wagers, does so on his own account. The principals in such transactions are commonly referred to as "bookmakers," although no technical definition of "bookmaker," such as the maintenance of a handbook or other device for the recording of wagers, is required. A wager is to be considered as "placed" with a principal when it has been placed with another person acting for him. To be "engaged in the business of

accepting such wagers" a person need not be either so engaged to the exclusion of all other activities or even primarily so engaged. Thus, for example, an individual may be primarily engaged as a salesman, and also, for the purposes of this tax, be engaged in the business of accepting wagers.

As previously stated, wagers placed in a wagering pool with respect to a sports event or a contest are taxable if the pool is conducted for profit. A pool will be considered as being operated for profit, if, for example, a person appropriated to himself a percentage of the amount contributed to the pool or required a fee for the privilege of contributing to the pool.

As in the case of bookmaking transactions, a wager will be considered as "placed" in a pool or in a lottery whether placed directly with the person who conducts the pool or lottery or with another person acting for such a person.

A contribution to a lottery will be considered a taxable wager only if the lottery is conducted for profit, as is the case with respect to wagering pools. The term "lottery," means any scheme for the distribution of property by chance among persons who have paid or have agreed to pay a valuable consideration for the chance, whether called a lottery, raffle, gift enterprise, or some other name. The bill specifically provides that the term includes "policy" or the so-called numbers game and similar types of wagering.

The bill excludes from the term "lottery" any game of a type in which the wagers are usually placed, the winner or winners are usually determined, and the distribution of prizes or other property is usually made, in the presence of all persons placing wagers in the game. Among those games which are within the scope of the exclusion are card games, roulette games, dice games, and gambling wheels. On the other hand, punchboards would not normally be excluded under this definition.

The bill provides specifically that the tax is not to apply with respect to wagers placed in pari-mutuel wagering enterprises licensed under State law. Also excluded from the tax are wagers placed in coin-operated devices with respect to which an occupational tax is imposed by section 3267 of the code. The bill provides that, for the purposes of the tax, the term "lottery" does not include any drawing conducted by organizations exempt from tax under section 101 of the code where no part of the net proceeds derived from such drawing inures to the benefit of any private shareholder or individual.

Liability for the wagering tax is placed upon the person who is engaged in the business of accepting wagers or who conducts the pool or lottery. Thus, the tax is to be collected from the bookmaker proper or from the person who conducts the pool or lottery as the principal. Monthly returns of tax are required. A credit is provided in the case of so-called lay-off money. In order to avoid the risk inherent in accepting disproportionate amounts of wagers on certain horses or numbers, the bookmaker or policy operator "lays off" a portion of his bets with another bookmaker or policy operator. In such cases it is the person with whom the bet is laid off who bears the actual risk of the wager even though it is the person with whom the bet was originally placed that the bettor looks to for his winnings or to whom he pays his losses. With respect to such laid-off wagers the

bookmaker or policy operator who originally accepts the wager is to be liable for the 10-percent tax upon it but may claim a credit or refund for the amount of the tax if the bet is laid off with another person who also is liable to the wagering tax. The credit will be allowable only with respect to amounts laid off with persons also liable to the tax on wagers.

A wager is the amount risked by the person placing the bet rather than the amount which he stands to win. Thus, if a person bets \$5 against a bookmaker's \$7 with respect to the outcome of a prize fight, the wager, for the purpose of the tax, is \$5. The amount subject to tax will include not only the wager proper but also any charge incident to the placing of the wager. On the other hand, the bill specifically provides that the taxable amount is not to include an amount equal to the tax if it has been collected as a separate charge from the bettor. This exclusion conforms to the pattern of the other excises.

The bill contains provisions designed to prevent avoidance of the tax through transfer of wagering activities to points outside of the United States.

Any person who willfully fails to pay the tax provided or to make a return or to keep required records (including a daily record of the gross amount of wagers received) is made liable to criminal penalties (in addition to the civil penalties) of up to 1 year's imprisonment and a fine up to \$10,000.

2. Occupational tax (sec. 471)

In addition to the tax on wagers described above, the bill imposes an occupational tax of \$50 per year upon any person liable to the tax on wagers and upon any person engaged in receiving wagers for him.

The bill provides that a person who pays the occupational tax must, as part of his registration, identify those persons who are engaged in receiving wagers for or on his behalf, and, in addition, identify the persons on whose behalf he is engaged in receiving wagers.

In general, the provisions of the occupational tax follow the pattern of the other occupational taxes imposed under the code and require registration, posting of special tax stamp by the taxpayers, the maintenance by the collector of a list of taxpayers for public inspection, etc. Special penalties are imposed for failure to pay the tax or to post or exhibit the stamp.

3. Coin-operated gaming devices (sec. 463)

Section 3267 (a) of the code provides an occupational tax of \$150 per year in the case of coin-operated gaming devices. Section 463 of the bill raises this to \$250 per year.

H. FLOOR STOCK TAXES AND REFUNDS

Both floor stock taxes and floor stock refunds are imposed or granted one time only: a tax when an increase in rates occurs and a refund when a decrease in rates occurs. They are imposed or granted with respect to inventories of items which are beyond the point at which an excise tax ordinarily is imposed at the time the increase or decrease in rates occurs. They are used only in the case of taxes imposed at the

manufacturers' level, since only in these cases are there any inventories of items held by persons other than consumers which have not been affected by recent changes in the excise rates.

Under the bill floor stock taxes are imposed with respect to the increases in the tax on distilled spirits, beer, wine, and cigarettes (secs. 451 (c), 453 (b), 452 (b), 422). In the case of gasoline a floor stock tax is also imposed (by sec. 489 (b)), but only with respect to stocks of gasoline held by retailers other than at their retail establishments and with respect to wholesalers. The rates of tax under these floor stock taxes are the same as the increases in tax provided for these items.

The bill also provides for certain floor stock refunds at the time of the termination, April 1, 1954, of the excise increases made by this bill. The refunds are to be limited to the items on which floor stock taxes are imposed at the effective date of the increase; that is, they are limited to distilled spirits, beer, wine, and cigarettes and to stocks of gasoline held by retailers at other than their retail establishments (secs. 454, 422, 489 (b)). The refunds are to be granted only with respect to the increases imposed by this bill, and only if the owner of the inventories can show that for 3 months after the reduction date the prices charged for the items reflect the tax decreases made.

VIII. MISCELLANEOUS

1. *Claims under the Renegotiation Act (sec. 617)*

Section 201 (c) of the Renegotiation Act of 1951 fixes the expiration date for the filing of claims for net renegotiation rebates arising under the World War II statute. Among other requirements it is provided that a net renegotiation rebate is not to be repaid unless a claim has been filed with the Administrator of General Services on or before June 30, 1951. Such claims could not be filed until the Federal tax audit was completed for the affected years.

Section 617 of the bill extends the time for filing a claim for such net renegotiation rebates to October 31, 1951.

2. *Prohibition upon denial of Social Security Act funds (sec. 618)*

Titles I, IV, X, or XIV of the Social Security Act relate to grants by the Federal Government to States for aid to the needy in the case of the aged, dependent children, blind, or permanently and totally disabled. The Federal Government and the States share the cost of these assistance programs. However, a State is not entitled to payments from the Federal Government unless the State plan has been approved by the Federal Security Administrator. Under existing law a State assistance plan in order to be approved must provide safeguards which restrict the use or disclosure of information concerning individuals receiving the aid to purposes directly connected with the administration of the assistance program.

Section 618 of the bill provides that no State or any of its agencies or political subdivisions is to be deprived of any grant-in-aid to which it otherwise is or has become entitled under title I, IV, X, or XIV of the Social Security Act as the result of State legislation permitting public access to records of the disbursement of any of these payments. However, the State legislation must prohibit the use of any list or names obtained from the records for commercial or political purposes.

Under this provision the State of Indiana, which has a law which permits public access to the records of disbursements of public welfare funds but which contains a prohibition upon the use of any lists or names for commercial or political purposes of any nature, will be entitled to receive its payments under the Social Security Act in the future and will also be entitled to receive any payments which have been withheld because of the Indiana law.

3. Removal of tax-exempt expense allowances of the President, Vice President, Speaker of the House, and Members of Congress (sec. 619)

Under present law the President receives a salary of \$100,000 and an expense allowance of \$50,000; the Vice President and the Speaker of the House receive a salary of \$30,000 and an expense allowance of \$10,000; Members of Congress other than the Speaker receive a salary of \$12,500 and an expense allowance of \$2,500. In each of these cases the expense allowance is fully tax exempt. No accounting by the recipient is required in order to establish a right to this exemption alone.

Section 619 of the bill amends title 3 of the United States Code and section 601 of the Legislative Reorganization Act of 1946 to remove the tax exemption of these several expense allowances. As a result these individuals will continue to receive the same salary and the same expense allowance as under present law, but the expense allowance must be included in gross income and will be taxed unless offset by allowable deductions or credits.

With respect to the compensation of the President and the Vice President, this amendment will be effective at noon on January 20, 1953. With respect to the compensation of the Speaker of the House and of Members of Congress, the amendment is effective as of January 3, 1953.



3540 E